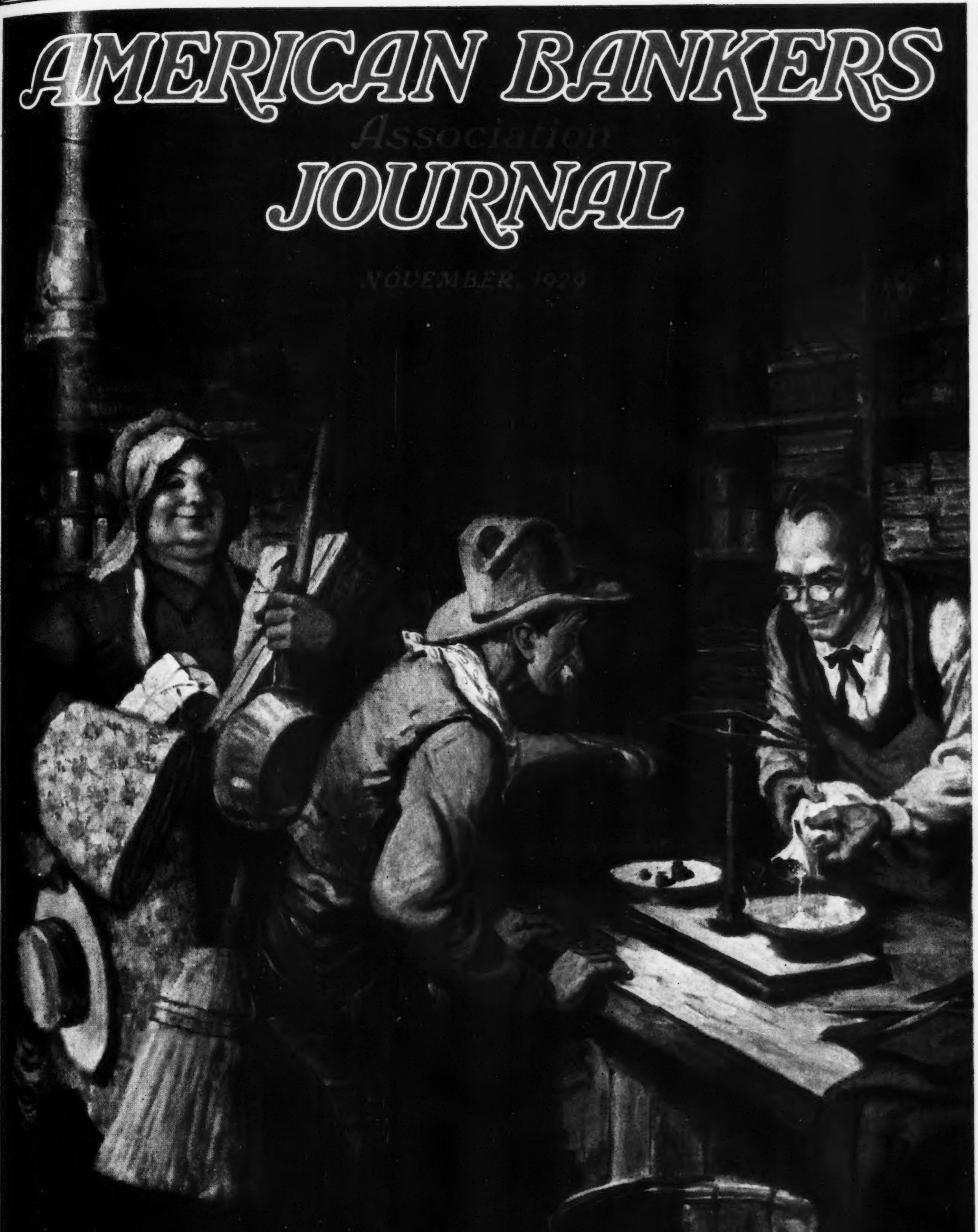
AMERICAN BANKERS Association JOURNAL

NOVEMBER, 1929



When Gold Dust Was Money

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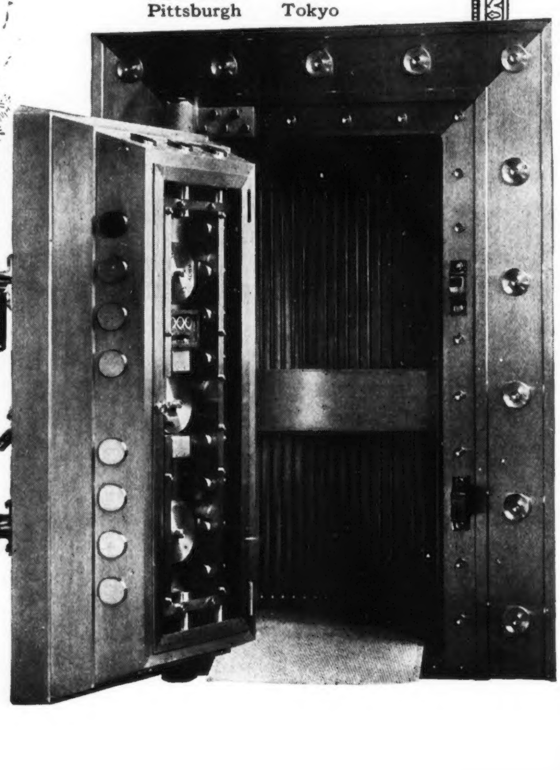
Published in Two Sections—Section One



When Gold Dust Was Money

[THE JOURNAL COVER ILLUSTRATION; FROM A PAINTING BY WALTER DE MARIS]

WHEN gold dust circulated as money, the men who found it and the men who dealt in it were of necessity intensely practical fellows little given, it is assumed, to abstract speculation on theories and principles of economics.

But though they may have known little, and cared far less about economic actions and reactions, it is nevertheless an obvious fact that then and there as here and now natural economic laws were in operation, affecting their lives and their prosperity.

In the glimpse of those times given on this month's cover the economic side is intriguing. By his toil and perseverance the old prospector has produced gold—both the substance and the token of wealth.

And from his labor many industries in far off places will receive an impulse. The broom maker in New York or the manufacturer of textiles in Massachusetts are, of course, not jarred by the impulse of his purchases but, nevertheless, the economic reaction is an actuality.

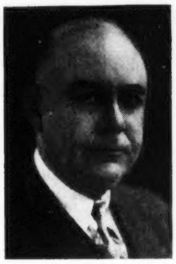
Back by a devious course, through jobbers, wholesalers, transportation companies, banks and manufacturers it goes to the very pay-roll of the textile mill, and taking on new life there the delicate impulse radiates its influence in many directions—down to the fields where the cotton is grown; off to the far places whence dyes and their ingredients come, straight to the places whence coal is mined for the power which turns the wheels of the mills, off to still other places whence come the manufacturers' supplies ranging all the way from boxes of wood in which to pack the fabrics, the paper in which the fabrics were wrapped—not forgetting, of course, the nails and the long and devious course that these small but essential articles traveled after emerging as red ore from the gaping mouth of some iron mine—perhaps in Michigan.

A SINGULAR condition in the first flush of riches following the discovery of gold in California was a scarcity of money. Gold dust was therefore freely circulated in place of coins; and in the delicate tilting of small scales—common accessories of both barkeeper and merchant—an onlooker might see (were he then in a mood for such things, which is unlikely) the action and reaction of economic laws. From their influence no one can escape.

This Month's Journal
and
Your Own Bank

THE JOURNAL this month deals largely with those things which are of practical concern to business and banking of the moment. Facts are uncovered and ideas advanced that can be turned to immediate account. They range over a far field, beginning with a new light on the "Problem of the Bank-Owned Farm," by Howard Whipple, President California Lands Inc., San Francisco. He describes a plan for the disposition of farm lands that may well prove a boon to both banks and agricultural communities. More intimately concerned with the future of banking, particularly the expense of banking, is the "Proposed Specific Tax on Bank Shares," discussed by Martin Saxe, Counsel of the New York Bank Tax Committee, who offers a suggestion for a way out of the bank tax muddle that could well be explored.

BRANCH banking has become one of the dominating questions in the banking world. Aside from the difference of opinion among bankers as to the wisdom of the system there is much to be learned of its mechanics in various parts of the country. How are branches located? A. J. Mount, president of the Bank of Italy National Trust and Savings Association, of San Francisco, the institution which is synonymous with branch banking, tells in "The Basis for Branches" the factors considered in the determination to establish a branch office.



NATIONAL bank aspirations toward interstate business have raised the very natural question of how state chartered institutions may enter the same field. Comptroller Pole's suggestion of branch banking by national banks in selected economic areas presents a problem to state banks seeking to compete on equal terms.

C. G. Shull, Bank Commissioner of Oklahoma, offers a solution to this problem that has the merit of being adapted to the betterment of banking irrespective of the outcome of the movement to broaden the powers of the national system. Out of his experience with state banks he makes a series of suggestions that require neither a magic wand nor the talents of super-bankers to supply the energy whereby "State Banks Can Keep Step."

T. N. CARVER, professor of political economy at Harvard University and one of the country's best known economists assails an argument touching upon the future prosperity of the nation which is being heard with increasing frequency. In "War Debts and Home Markets" he takes issue with the school of thought which holds that the payment of obligations of the former Allies to the United States must produce a reduction in the demand for American made goods in the domestic market. Nor does he hold with those who contend that the liquidation of German reparations will hurt the markets of the countries on the receiving end. The article provides a rebuttal for much that is being said now that the new Young Plan for German reparations settlements is going into operation.

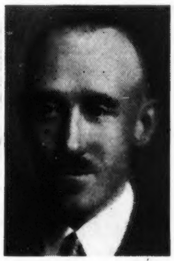
"THE Country Bank and the Chain Store Account," by C. F. Zimmerman, president, First National Bank, Huntingdon, Pa., is a presentation of detailed statistical information on the vexing problem of chain store accounts. There has been obtained from a number of banks definite information of how satisfactory or unsatisfactory these accounts have proved to be. First hand knowledge of the methods of dealing with chain store accounts are presented and it may come as a surprise to many to see the percentage of these accounts that come under the classification, "Satisfactory."

TRADITION has decreed political isolation for the United States. Banking and business, making their own traditions, have found relationships with other countries unavoidable. Developments in finance in Great Britain and in this country are especially sensitive to mutual reactions. Hence "British Banks Go Into Business," by Frederic Edward Lee, professor of Economics, University of Illinois, and, until quite recently, American financial trade commissioner at London, is not only an interesting but a valuable contribution to this country's knowledge of British banking trends. Every one is familiar with England's post-war economic struggles. This article by one who has been on the ground throws a new light on some of the reasons for the troubles in the United Kingdom and sounds an encouraging note in its exposition of the radical steps which are being taken by British banks to compel the adoption of remedial measures.

ANOTHER article which reflects first hand observations of conditions abroad is "New Bank Will Reflect the Genius of One Man," by Lionel D. Edie. After several months in Europe he is able to consider the Bank for International Settlements which is being set up through international cooperation from the foreign as well as the American viewpoint. The justification found for the new institution is based upon a rather broader conception of the needs and requirements of a complex civilization than has been evident in much of the comment upon the bank that has appeared in this country. What is of especial interest to American bankers in

this article is the conclusion that upon the leadership in the institution depends its success.

THE proposed United States of Europe seems to find but little favor abroad. The United Nations of the Western Hemisphere is much more rapidly becoming an accomplished fact. "Trade Follows the Telephone," by M. C. Rorty, vice-president of the International Telephone and Telegraph Corporation, brings a new realization of the growing links in the economic chain which is binding the two Americas closer and closer together. Few understand the possibilities of the telephone as a pioneer of business. Its widespread use in this country has made it too commonplace. In Latin America the expanding web of wires bids fair to bring about an understanding of the community of interest of the two continents that statesmen have been struggling for decades to accomplish.



SMALL loan departments are becoming increasingly popular with banks. Many smaller banks, however, have not yet seen how such a department can fit in profitably with the scheme of their institutions. In the September JOURNAL Howard Haines, vice-president of the First State Bank, Kansas City, Kansas, described the value of the small loan department to the bank doing business in a town or in a rural community. The immediate reaction to his article was a demand for more information on the subject. "The Technique of Character Loans" in this issue is his response to this demand. Here he assumes that the case for character loans has been made and proceeds to outline rules for the safe and profitable conduct of a small loan department with a word of encouragement for bankers who have entered the field only to experience the chill of nervousness which so often accompanies an adventure into the unknown.

OF all the things which make the name American stand out in the minds of the world nothing takes precedence over tobacco. Nevertheless this great industry, which was the first "money crop" of the early settlers, has been slow to catch step with the progress which is so typically an American attribute. But great changes are taking place in the tobacco industry. C. B. Sherman in "Better Returns from Tobacco" in this issue describes these changes and shows their significance to the prosperity of the nation.

Bank vaults must resist attack by torch and drill

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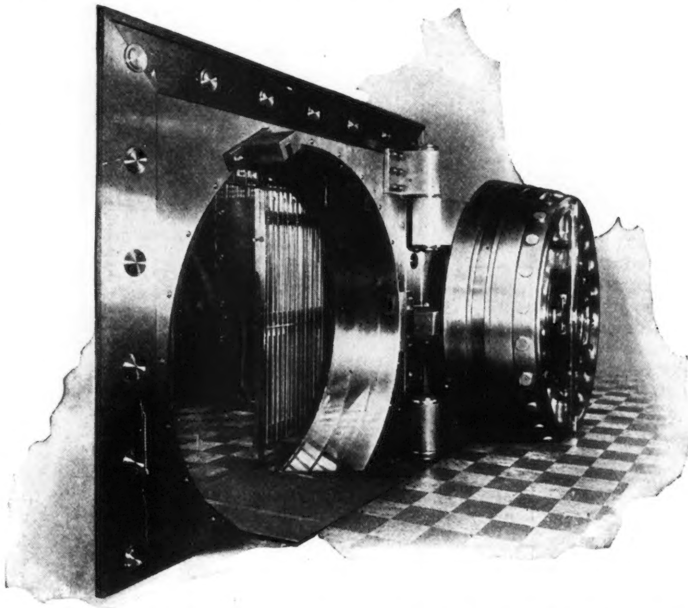
Salem, Ore.

Bank of California
Seattle, Wash.

Dexter Horton National Bank
Seattle, Wash.



Vault door in the San Diego Trust and Savings Bank, San Diego, Calif. Protected by a thick plate of Copper specially treated.

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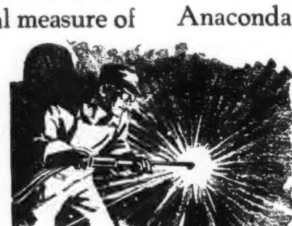

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AMERICAN BANKERS ASSOCIATION JOURNAL

Problem of the Bank-Owned Farm

By HOWARD WHIPPLE
President, California Lands Inc., San Francisco

A California Solution. Farms Were Taken Out of Banks and Lodged in a Separate Company. Appraisal and Providing Operating Funds. Scheme Adaptable to Other Regions, but Continuous Farming by Corporations Not Likely to Be Adopted.

WHEN the economic history of the period following the Great War is written, it will probably chronicle the fact that the golden age of farm prosperity for all time was reached in the year 1919, and that, immediately after that pinnacle was attained, it was followed by agriculture's most extraordinary collapse. This brought in its train an avalanch of bank failure and farm mortgage foreclosure out of which has arisen the problem of the bank-owned farm.

It is a two-sided problem, one of operation and one of disposal. Particularly in the Middle West, in contrast to California, the question of disposal is more perplexing than that of operation. The farms of the Middle-West section produce staple annual crops which are as readily adapted to tenant as to owner operation. Tenantry reduces supervision—and losses—to a minimum; it simplifies the problem of farm operation.

Mid-West Banker An Expert

FURTHERMORE, in the matter of farm management, he is a rare middle-western banker who is not pretty much of an expert. Not only does he live in the middle of an agricultural environment, but the chances are the bulk of his fortune is tied up in farm lands. I recently attended a bankers' convention in one of the central states where the only speakers who touched on banking problems were the outsiders. The locals who appeared on the program talked farming and nothing else; as far as their interesting contributions were concerned, the meeting might well have been that of an intelligent farm bureau. To such men farm management is not much of a problem.

In their knowledge of farming, however, these middle-western bankers are not obliged to cover a very wide range. Small grains and animal husbandry comprise the bulk of it, with an occasional smattering of drainage and fertilization. In many sections the question of soil type is not a weighty one, for the soils of the Mississippi Valley are very uniform in quality. Many a farm mortgage loan has been made in that territory without the banker having left his office to view the property, so confident was he in the character of his security. Soil moisture, too, is only a question of annual rainfall, which is distributed over each acre without much distinction and without capability of influence on the part of anyone.

Fifty or Sixty Crops

HOW very different it is in California! In contrast to the five or six principal crops of the Middle West, the diversity of California farm production is so great that very often knowledge of some fifty or sixty crops is required. They run from cereals and animal husbandry to summer and winter vegetables, citrus and deciduous fruits in great variety. Each requires a special knowledge, not a little of which must be highly scientific in character. If you should attend a meeting of California peach growers, for example, the chances are you would be surprised at the high level of their discussion; you might think you were in a forum of university professors; not only would you hear questions of drainage, irrigation, and fertilization discussed with fine intelligence, but you would learn that they prune their trees and thin their crops with such exact knowledge that they can very nearly tell in advance how many cans of number one peaches each individual tree will produce. As for the marketing of their highly specialized product, the subject is bewildering to the uninitiated.

But in addition to the science of production and marketing, the banker-farmer in California must have knowledge of irrigation problems. Land requiring irrigation, as is the case in so much of the West, must be leveled and checked so that water may be put on it uniformly and economically. Water rights are an intricate subject, and pumping plants require no small amount of engineering skill—to say nothing of capital. One 1400-acre tract in the central part of the state has four pumping plants, each one of which cost over

$15,000. On smaller farms in sections of more favorable water supply, the average cost of a pumping plant is in the neighborhood of $2,500. Reduced to dollars per acre, the average cost of water supply alone is from $50 to $100. This does not include the electric power charge for annual operation.

Soils Vary in Narrow Ranges

FULLY as important is the question of soil type. In California, soils vary as the colors of the rainbow within surprisingly narrow ranges. The brilliantly colored Flame Tokay grape requires one type of soil if it is to thrive and have good color, without which it is unmarketable. Across the road the land may be suited for pasturage only. The white malaga will not sell if it is too greenish in cast when ready for market; a special soil is required to obtain the right hue. The peach, the orange, the prune and the apricot are all as particular over their orchard home as a mother over the welfare of her child. Only the fig has little or no care where he hangs his hat.

Mistakes in estimates of soil adaptability are probably as great a cause of farm disaster in California as any other. Where peaches are planted on what is good for grain and grain only, where prunes are planted on rice land, and where grapes are planted on just pasturage, there can only be one result. Some one, who some day will inherit such property through inevitable foreclosure if it is mortgaged, will be obliged to pull out the expensively planted failures and restore the land at no little cost to the purpose nature originally planned for it.

Income Is Delayed

ANOTHER difficulty about California farming is the delayed nature of the income from perennial crops. An annual crop, such as a staple of the Middle West is sown and harvested in a single season. Furthermore, its cost of production is light compared with an irrigated fruit crop of the Far West. In one peach-producing county in California, an investigation revealed that after the bare land had been purchased at a cost of from $200 to $300 per acre, and approximately $100 more expended in preparing it for irrigation, the annual cost of bringing each acre of peaches up to production was $155 per acre per year for five years; and even such a high investment would not be justified unless the orchard would produce an annual crop of at least nine tons per acre. But if it did so produce in time, the farmer could still fail. For while he was waiting for his orchard to produce commercially he must live. If he had no other source of income, the chances are that he could not keep his head above water and would lose his property through foreclosure or forced sale.

With this high degree of specialization and capital outlay required by California conditions, it is no wonder that disaster should befall the inexperienced Easterner, or even the more sophisticated but mania-imbued Californian, when he overstepped the bounds of accurate agricultural knowledge and good business judgment, and, in the enthusiasm engendered by a temporary but vision-blinding high price level, borrowed all he could from a banker who, too, was of the opinion that Christmas hereafter would last forever. One of the worst cases of this variety that has come to my attention was that of the son of a middle-western banker who came to California with a quarter of a million dollars. He immediately proceeded to buy nearly all the barren and waterless hillsides he could find in a particularly undesirable section and to plant them to permanent crops which could not be cultivated because the fields were too steep for a horse to walk on. When his holiday was over he went away with only an old automobile and the clothes on his back. And not only in California did such things occur; all through the Middle West and elsewhere farmers and speculators bought more land than they could pay for at prices which could not be sustained.

Both Farmer and Banker to Blame

THE result of such judgment, no matter where exercised, has been a deluge of foreclosure, as everyone knows. Both farmer and banker were to blame, and both have been severely punished for it. The farmer lost his land and the banker very often his bank. The farmer was usually the luckier of the two, for the foreclosure lifted a burden of staggering indebtedness from his shoulders.

Although this condition of affairs existed in California to some degree, it did not result in an epidemic of bank failure—such as was experienced in the Middle West—for a reason peculiar to California. The agricultural depression following the Great War reached California at a time when her branch bank expansion movement was at its height. Banks in difficulties found refuge in the all-embracing arms of the state-wide branch banking systems; they gladly sold out to the chains for the purpose of avoiding the misery and disgrace of the ultimate suspension with which some of them were faced.

But the branch banks were not so improvident of the welfare of their depositors as to incorporate into their own totals the slow loans and forfeited real estate of the selling institutions. They divorced depositors' and stockholders' interests in assets of that character by taking them out of the banks entirely and lodging them in a separate corporation. Thereafter whenever necessity required the foreclosure of a mortgage, the auxiliary corporation would purchase the foreclosed property from the bank for cash. By this means the bank is kept free from improper assets and depositors' interests are not jeopardized. A tremendous service has been done in the state by this action; by it California has been spared the depression caused by the numerous country bank failures of other sections.

It is proper to point out here that the foreclosed properties which fell into the hands of the branch banks were not the product of loans they themselves had made. Instead they were practically all the product of loans made by the rural banks they purchased.

Duplication and Competition

THE lodgment of these forfeited lands in strong hands and in a place where they could do no harm to the banking situation was one thing; handling them thereafter was another. The auxiliary corporations of two large banks found that in the operation of their farm properties there was duplication of effort in administration and competition in the markets when selling both land and produce. To correct that situation they formed a new corporation to own and operate the properties of both.

Each auxiliary appointed an appraiser. They were charged with the responsibility of setting a fair and impartial value on each piece of property, the only irreducible requirement being the use of a common yardstick for measuring value. For every one hundred dollars of appraised value the new land corporation issues to the owning auxiliary a share of its capital stock. For operating funds it draws on the auxiliaries in the proportion the share of each corporation bears to the whole. Partiality is impossible because, when once merged in the land company, each piece of property loses its identity as far as its banking source is concerned.

Direction is exercised by a board of directors composed of officers of each bank who delegate routine problems to an executive committee. Administrative officers are charged with the details of operation and sales. A central office maintains divisions of accounting, sales, leasing and operation. Under the last, the state is divided into districts, each in charge of a district manager who, under the direction of the central office, is charged with the proper operation of the group of farms assigned to him. He is a carefully selected, well-trained man with both theoretical and practical knowledge of farming. Some district managers have two or more superintendents under them who maintain close touch with the forty or fifty farms in their care. Under them foremen direct the activities on a much smaller group of farms.

All these activities are coordinated by the head office. It acts as a clearing house of information and standardizes wage levels, purchases of equipment and supplies and sales of produce. It maintains rigorous control over expenditures. It shifts equipment and supplies from point of surplus or disuse to point of need and avoids the purchase of duplicating articles often demanded by the field forces. By buying in quantity it obtains lower prices than any of the district offices could obtain individually.

(*Continued on page* 518)

Trust Services Amid Mergers

By JOHN G. LONSDALE
President, American Bankers Association and President, Mercantile-Commerce Bank and Trust Company, St. Louis

Trust Services Are Facing an Era of Enormous Possibilities. But Individual Attention Must Never Be Lacking Despite the Great Size of Modern Departments. The Bank President Should Keep in Close Touch with All Developments in Trust Field.

THE first written record of a trust provision is found in the oldest will, that of an Egyptian named Uah and dated 2548 B. C., making it nearly 4500 years old. And the first company chartered with power to perform trust duties was established in 1822, just 107 years ago. Yet, strange as it may seem, the trust department of today is of more recent growth and has made its greatest strides only in the last decade or less.

Without belittling present results, it is safe to say that what has been done up to now in the trust field will look very insignificant when compared with totals a few years hence. In spite of the wonderful showing already accomplished, we face an era of enormous possibilities, but with it all, cumulative responsibilities. And it is to be hoped that bank executives the nation over may be brought to a full realization of their opportunities as well as their obligations.

A Worthy Goal

"OBLIGATIONS," because they are just that. In becoming the custodians or the guardians of the property of others, banks assume what has been fittingly described as the "most exalted human relationship ever created by law." They become in truth the servant of the public. And among their daily duties as trust officers or as members of trust committees bankers have entrusted to their judgments some of the most sacred and most heart-touching human problems that have ever existed. They become at once a big brother, a big sister, an advisor, or a confessor, sworn to so conduct themselves that their customers will be won to them by their ability and their integrity.

It is a splendid testimonial to our trust departments to note that public confidence has grown to the point where large numbers of people are abandoning the practice of naming individual executors or trustees, with all their human shortcomings, and choosing instead the corporate fiduciary service, which has behind it the combined experience of many trained individuals; the facilities and knowledge to render whatever service may be demanded; the financial strength and safety of a great corporation; an existence that is not limited; and yet not lacking in the very vital elements of human sympathy and individual attention.

On the Pulse

THE importance of the trust department as viewed by the bank executive is here presented by the President of the American Bankers Association, who, foreseeing the tremendous expansion of trust activities to be expected in this country maintains that the head of the institution must keep his finger as closely on the pulse of operations in this field as he does upon the other functions of the bank. The trust department, moreover, is to be regarded as a business-getter for the bank.

In these days of giant mergers and consolidations, when institutions and departments are becoming of such enormous size, the one big factor which business men and bankers must safeguard themselves against is any appearance that individual attention will be lacking. We must see to it that no matter how large we grow, no matter what details demand our attention, we do not lose our individual solicitation for the welfare of our customers or our prospective patrons. The winning of public esteem and confidence through individual attention is a worthy goal for all institutions that render a service to humanity.

The Life-Giving Vitamin

THE favorable reaction of the public toward trust department service is not accidental. It may be traced jointly to the growing intelligence of the American people in financial affairs and to our united efforts in advertising to the world at large, either through the printed or spoken word, the merits of the services we offer.

Let me emphasize the fact that advertising used in a sensible, judicious way is necessary in our business. We cannot afford to ignore a power that has accomplished so much good for humanity in its short existence. Advertising is the life-giving vitamin of modern business; the spark of vitality which contributes largely toward keeping in motion the varied units of production; the master salesman that unobtrusively enters the home of new markets and stimulates a desire for possession.

Advertising, however, cannot claim all the credit for the rapidly improving financial intelligence of our people. It is due in no small measure to the varied activities of the American Bankers Association and its affiliated state organizations. Our campaigns of education, sponsored in the schools throughout the United States by the American Bankers Association, is one of the channels through which the public is being enlightened on banks and their functions.

Not Such a Hard Order

ANOTHER thing which is adding greatly to the service value of trust departments and in consequence winning public confidence, is the constantly higher standards that are being insisted upon in the selection of trust department personnel. An efficient trust executive must be an individual of high character and moral standing, should be possessed of college training, or its equivalent; should have a knowledge of law, investments, taxation, insurance, accounting, salesmanship and possess a sympathetic nature and personal charm. Not such a hard order to fill after all, when one realizes how successfully it has been filled by many institutions.

Coupled with these numerous qualifications for the trust executive, however, should be the warning that his aids likewise should be chosen with care and that every effort should be made to keep the department from being a one-man affair. It is necessary to have new executives in process of development so that they may step in and take up the reins when anyone else drops them.

We must not forget in the estimate of our trust departments to include the fact

(Continued on page 510)

Banking's Least Known Factor

By JAMES H. COLLINS

It Is the People Whom the Banker Is Seeking to Serve. What Is the Depositor Saving for and What Does He Need, Are the Questions for Which Answers Must Be Found. The Public Today Is More Interested in Management of Money Than in Thrift.

New Markets

THE banker still makes what the people should want and not what they actually do want, according to Mr. Collins. Other lines of business found it necessary to study their markets in order to keep abreast with the desires of the public. He cites the creation of finance companies and credit unions by other agencies than bankers as proof that the public has been a bit ahead of the banks which seek to serve them. But, he believes, there are other equally important financial fields awaiting development.

A CANDY manufacturer found his business falling off.

Ten years ago he would have hired an expert to study the making of his candy, but this is a new generation.

He hired a market expert instead, and the market man studied the people who buy candy and reported changing habits.

Where the public had once bought package candies such as this maker put up, it was turning to the bulk candy in the chain stores. The price was a little lower, but the big thing was, fresh chocolates and bonbons.

A New Tack

THIS man could not establish a chain of candy stores. But, he did arrive at practically the same result by inducing druggists to put in bulk candy counters, engaging intelligent girls to sell and having his salesmen service the stock daily, so that the assortment was always fresh.

He got back his lost trade, and more.

This way of studying markets as people is becoming quite common in manufacturing and trade. Bankers often take it into account in financing enterprises. But, so far as I know, there has been little application of market study to banking.

Bankers are still "production minded," which is getting to be something of a term of reproach in other lines of business. As financial "factory men," they have turned out excellent goods in the way of checking facilities, transit and clearing machinery, friendly loan departments, secure savings departments. As production men, just now, they are organizing for mass output, with its economies and stability.

What Do They Want

BUT, the banker still makes what the people should want, rather than what they actually do want. Perhaps he still has to learn, by market study of people where they live and what they can really use to best advantage in bank service. When that is learned, and the article suppiled, banks will find more customers, for in this respect finance is just like candy and automobiles.

Let me illustrate market study, as applied to bank business, by assuming that a market investigator has been retained, and the bank proposes to learn something about people for the purpose of getting more customers and more business from present depositors.

We decide to begin with savings depositors, because the fight for that business is always hot, and it is a mass market.

"Find out why people save money," we direct. And, perhaps we are a little astonished when the investigator departs without asking us what we know about it. Here, for more than a century, we have been keeping savings deposits for thrifty people, and putting the bee from the hive of thrift upon them, to persuade them to save. But our expert goes away, after asking a few questions about the character of our savings accounts.

In an amateur way, years ago, I spent considerable time asking people how they saved, and got so many ingenious plans that they made a series of magazine articles.

In asking why people save today, the investigator would find just as many unsuspected reasons and bring back a picture which would be new to bank men and suggestive of new services and advertising appeals.

Examine almost any run-of-the-bank advertising designed to bring in more savings, and you will find that it steadily hammers thrift, and that the presentation is at least a generation behind this age.

Savings banks were started to take care of the pennies and dimes of poor people. They were not started by bankers, either! After the Napoleonic wars, desperate poverty in England led to many schemes for helping the poor, but the one that worked was the thrift plan of a Scottish parson, the Rev. Henry Duncan, who began keeping pennies for poor farm laborers, to tide them over unemployment, and when his depositors were out of work, he hustled and got them jobs!

The beehive of thrift and the little saved from income were real inducements to poor people in those days.

But today, I believe, our market man would find that the management of money is more on people's minds. They learn the penny saving in school, with children's accounts. Savings from wages

soon run into such balances in these times that it is natural to think, "What shall I do next?" The next thing that people do, I found, is turn to life insurance, and then to home ownership.

Stock Investments

SAVINGS now entitle the thrifty person to a stake in the growth of the country. John J. Raskob urges participation in this growth by investment in common stocks of corporations that must grow with the country. It makes very little difference whether you and I think that desirable for the people, or undesirable. Mr. Raskob has found a new thrift bee! He has put it into enough bonnets so our market investigator will find plenty of people who save toward that end. And the logical thing for a bank to do would be to start a new kind of candy counter. Directly appeal to that kind of people, and help them in the purchase of the common stocks.

At first sight, such a suggestion seems to take the bank outside of conservative finance.

Yet, better acquaintance with people and practical knowledge of how they are handling their money will show that such things are on their minds. That is what we have paid the market investigator to find out. What shall we do with his results?

Let us go back in imagination ten years, and take our market investigator with us, and give him the same instructions.

He comes back with information that alarms us, as bank men. He reports that nine people in ten with savings accounts, or saving wages, are crazy to possess an automobile. You will probably remember that bankers did get an inkling of what was on people's minds after the war, and strongly cautioned hard-working folk to avoid this mad extravagance.

What happened? Why, the people found other facilities for financing themselves, and we have the finance company.

Let us go back another fifteen years, and our investigator reports loan sharks, against which the people who knew how to manage to some extent are organizing credit unions, cooperative lending societies. No bank undertook to provide facilities for these small borrowers—but today the biggest bank in the country is glad to help them.

Backward still further, a leap of seventy-five years this time, and we find people thinking about home ownership, and providing their own financial facilities in the building society, which has since grown into a typical banking institution.

When the candy manufacturer hires the market counsellor to learn what people are doing in relation to bon bons, his expert reports that the public is one or two jumps ahead of his method of selling candy. The manufacturer hastens to catch up, and if possible, locate himself where the public will jump next—and it is often possible.

The history of savings seems to show that the public has always been a jump ahead of bankers, and in one sense this is not a reproach since the bank has required conservatism and regulation, for safety, whereas these other facilities have been started with considerable risk and often loss.

But, that finance companies and credit unions should have been needed in our own generation to supplement banking service is a reproach to the extent that bankers did not know the people with whom they sought to do business—what they were thinking about, what they needed.

People are still the unknown factor in banking, just as they have been until very recently the unknown factor in storekeeping and the making of goods.

An Awakening

THE manufacturer and merchant assumed that they understood their customers, until vanishing trade and unsold merchandise forced them to study the people who make markets.

The banker still feels that he understands depositors pretty well. But well-planned market surveys might show him to be as wide of the mark as were these other business men.

In this day of mergers of every kind, one of the stock reasons for merging is, "the consolidation of business in big enterprises will make it possible to devote more money to research."

I believe this holds true in bank mergers, and that before long we shall see some rather wonderful new viewpoints reached through research into this factor of banking. The recently manifested, but none the less sincere interest of bankers all over the country in the science of better management, is sufficient basis for such a prophecy. Efficient management is impossible without the necessary research upon which to base administrative policies. Banks are acquainted with research and the directions which their researches are taking multiply rapidly.

Proposed Specific Tax on Bank Shares

By MARTIN SAXE
Counsel of the New York Bank Tax Committee

New Alternative Method of Taxing National Banks Suggested. Specific Tax on Shares in Stockholders' Hands, Measured by Dividends, Plus Increases in Capital, Surplus and Undivided Profits, from Undistributed Earnings Is Procedure Proposed.

THE fourth alternative, or excise, method for the taxation of national banks, contained in Section 5219 of the United States Revised Statutes, as amended in 1926, provides that "in case of a tax on or according to or measured by the net income of an association, the taxing state may, except in case of a tax on net income, include the entire net income from all sources, but the rate shall not be higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing state upon mercantile, manufacturing and business corporations doing business within its limits."

The intent of Congress was to permit states, in the application of an excise tax "according to or measured by the net income" to tax national banking associations to the same extent that a state adopting such a method for the taxation of national banks, taxes financial, mercantile, manufacturing and business corporations. In other words, the "rate" applicable to national banks could not be higher than the ratio of the burden of state and local taxes upon such other corporations to their net income from all sources.

Excise Tax Adopted

FURTHERMORE, where the taxing state imposes a direct tax on the net income the statute does not allow taxing the income from all sources, thus indicating the exclusion of tax exempt income.

Massachusetts, New York, California, Oregon and Washington have adopted the excise tax on banks, "according to or measured by" net income from all sources, and Wisconsin applies a direct tax on net income to them.

The decision of the United States Supreme Court (May, 1929) in the Macallen Company case (279 U. S. 620) has thrown serious doubt on the constitutionality of including income from tax exempts in the gross income base of the excise tax measured by net income from all sources. The application for a rehearing has been denied.

As the national banks are much larger holders of tax-exempts than the financial, mercantile, manufacturing and business

Without Prejudice

ONE of the latest developments in the bank tax situation, which is absorbing the interests of bankers all over the country, both state and national, is here discussed. However, publication of the article in the JOURNAL *is without prejudice to the declared policy of the American Bankers Association of opposition to any amendment to Section* 5219 *that might tend to infringe upon the integrity of the protective principles of that statute.*

corporations as a whole, it follows, that if tax-exempt income has to be excluded the bank excise tax states would lose proportionally more revenue from the banks than from the other corporations. In any event the revenue from the banks under the excise tax would be less than at present and the states concerned would not find it desirable to continue the application of the excise tax alternative as now provided in Section 5219.

A More Favorable Burden

IN New York, a study of the 1927 income figures of a group of twenty-five banks (comprising nine national associations and sixteen state banks and trust companies) which paid approximately 70 per cent of the total bank excise taxes assessed for that year, is illustrative of the revenue effect from the elimination of tax-exempt income.

The total bank excise taxes paid by the group amounted to $5,371,038, of which nearly $2,000,000 represented taxes measured by tax-exempt income. It is estimated on the basis of the total 1927 New York bank excise taxes, aggregating $7,600,000, that over 37 per cent represented taxes measured by income from tax-exempts.

It has been suggested that a simple solution would be to increase the rate on net income with exempt income excluded, upon both banks and other corporations and thus maintain the present revenue receipts. But this would meet with strenuous objections on the part of the other corporations and would seem to penalize them because the banks would enjoy a more favorable burden through their larger holdings of tax-exempts; their business naturally causing them to possess tax-exempts, which is obviously not the rule in the case of the other corporations.

An Impediment

ANOTHER recent decision in connection with tax-exempts, which may also affect the excise tax revenues, has to do with gains from transactions in them.

In *Willcuts* v. *Bunn*, decided Sept. 16, 1929, the United States Circuit Court of Appeals for the Eighth Circuit, affirming the United States District Court, decided that the gain on the sale of certain county and city bonds was not taxable income under the Federal income tax. The court held that the tax on the gain was a direct tax upon the income derived from municipal securities, and within the reason of the established rule, as applied to such securities, that such a direct tax is an impediment to governmental borrowing power.

If the Supreme Court takes the same view of such gains, the net income of banks will be reduced for income tax purposes.

Tentative Proposals

DURING the meeting of the 1929 National Tax Conference, a committee known as the Saranac Inn Conference Committee drafted tentative proposed amendments to Section 5219, among which were two provisions to meet the revenue situation in the bank excise tax

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Investment Trusts and Others

By CHARLES F. SPEARE

Differences Between the Two Types. Trading Corporations and Finance Companies Have Taken the Lead in Number, Capital and Popularity During the Last Nine Months. Permanent Character of the Trust and the Corporation Compared.

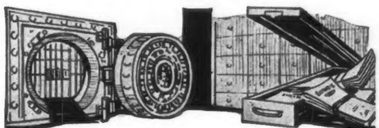
PERHAPS it had been better to have reversed the order of this title for the emphasis of the present article is to be placed on the "others," namely the trading corporations and the so-called finance companies for it is they that have taken the lead during the past nine months both in the number incorporated and in the amount of capital represented; also in the popularity with the public and in the problems which they have created in the investment and speculative fields.

First of all it is well to define the character of the trading or finance corporation and put it in its proper place as an agency for the buying and selling of securities. Otherwise, the tendency to merge it with the investment trust and classify both together when their good and bad features are being considered will become chronic and may do much harm eventually to one of the most modern and most scientific instruments available for the permanent placing of capital.

The Investment Trust Buys to Keep

IT is fair to say that an investment trust, as it has come to be known in the United States may, in a degree, have the attributes of a trading corporation. It shifts a portion of its portfolio from time to time as market conditions make this necessary or profitable. Essentially, however, such a trust "buys to keep." It is supposed to ferret out situations in securities that are undeveloped or under priced and stay with them until they have reached their fruition and then go on to others. Along with this is the insurance against capital losses resulting from a wide diversification of risk. Whether this is sound judgment or not may be argued both ways. My impression is that in order to establish the investment trust firmly in the American mind the diversification principle was too much "touted," so to speak, and that there is now a reaction from it. One of the best managed trusts with which I am acquainted finds it has enough units to deal with and watch over in forty. Others have 100 to 200. It is possible to spread the risk very thin in dollars but to have so many and diverse conditions to consider, both national and international, that the whole body of securities may be neglected.

The trading corporation is largely an American product. It is the youngest



The New Type

HERE is a timely article. A new type of security generally develops, says the author, during a period of prolonged speculative excitement and to it the public rushes in quest of fortune. "The trading corporation stock is the vehicle on which the present generation has started out on a ride to riches." The possible future of both this type and the pure investment trust are analyzed.

member of the finance group. It is scarcely a year old—at least the terminology associated with it has been mostly developed since last January. There were "trading corporations" before then but they were called "investment trusts" and their securities were sold and dealt in under the general heading of trusts. We have made considerable progress in the matter of frankly ticketing the trading companies but there is still the same confusion of terms concerning them in the mind of the public and its representatives in Congress and state legislatures, and also in newspaper offices, that existed nine months ago.

A trading corporation may have some of the attributes of an investment trust. Some of the earlier ones did possess this to a considerable degree. The chief difference between the two that one gathers from a reading of their charters or articles of incorporation is that the newer organization has greater independence of action in the security markets than the older one and can move freely over the entire list of stocks or bonds, trade with its principals, secure control of properties and throw the matter of diversification to the winds.

Most Vital Difference

THE greatest and most vital difference from the standpoint of public safety, however, is in the transient character of the trading corporations' portfolio and the temptation to speculate on the short swings in the market rather than to invest in the future growth of a property or a country. Along with this is the difficulty which the investor in a simon pure trading corporation stock has of ever knowing what is back of his trading company shares. The collateral on September 18th may have been of wholly changed character on October 30th. Furthermore, the trading corporation rarely buys bonds or foreign securities. Its portfolio is, therefore, unbalanced though not necessarily highly speculative. It may be claimed that the present day trading corporations are under the guidance of men who are more clever and shrewd in a market sense than those who sit in authority in the investment trusts and that they will make the most money while stocks are in a period of wide fluctuations. There is no doubt in my mind, however, which of the two will outlast the other and prove the more profitable investment over a period of normal stock movements.

The divergence of policies of the two types of finance company should be remembered so that the errors of the trading corporations are not charged to the investment trusts at a later day when the inevitable break-up in values occurs and investigations and legislative restrictions follow.

Guard the Name

AT the October convention of the Investment Bankers Association in Quebec the committee on investment companies urged a clearing up of the nomenclature surrounding finance companies and the necessity of "classifying this heterogeneous group having in mind that the term 'investment trust' should be applied only to those companies which are operated primarily for the benefit of the investor and with the purpose of giving him safety through intelligent diversification of their holdings." Then it said "it should distinctly not be applied to companies formed with the idea of acquiring control of other companies nor to companies formed primarily for

(*Continued on page* 512)

Better Returns from Tobacco

By C. B. SHERMAN

American Tobacco Industry Discards the Mantle of Colonial Tradition Seeking Stabilization. Better Returns for Both Growers and Manufacturers in Sight. Government Begins the Study of Production and Sales. New Grading Service Starts.

TOBACCO as a commodity is a source of great revenue to the nation; it is a cash crop of supreme importance to localized farmers in one-third of the states in widely separated parts of the country; its manufacture employs more than 100,000 citizens and an investment of hundreds of millions of dollars; its consumers are found in rapidly increasing numbers all over the world.

Tobacco featured prominently in the earliest history of this country. It has been the subject of legislation and debate from the earliest form of colonial government. Even in that era, colonial production so constantly threatened to exceed demand that continual legislative efforts were made to remedy the situation by those much-discussed devices of fixing prices and limiting production.

Tobacco passed freely as legal tender during the colonial days. Old Christ Church in Alexandria, Va., of which George Washington was vestryman, was built from the income of a tax on tobacco levied by the vestrymen on the parish; the 500-acre glebe was bought in the same way and the clergyman's salary was so paid. Going back yet further we find that Yorktown, Va., was literally built with tobacco. Old records show that in 1691 the king issued orders that fifty acres of land should be bought and laid off for a shire town, or court-house town, to be paid for from the king's treasury, which consisted of stores of tobacco. Ten thousand pounds of tobacco were paid for the land; it was subdivided and the half-acre lots were each sold for 180 pounds of tobacco.

Tobacco was the first export of the Colonies, was immediately a leading article of exchange with the mother country, and is still an important item in American export tables, for the United States produces about one-fifth of the total world production and exports more than one-third of the tobacco that is in world circulation.

A Victim of Vagaries

YET from the production and primary marketing point of view this commodity has only recently begun to receive the public attention which has been so freely bestowed on other important farm products. Within the past two years several noteworthy steps have been taken by public officials and leaders to rationalize the industry in its earlier stages. Considering that the production of leaf tobacco of all types far exceeds 1,000,000,000 pounds each year, that the estimated yearly return to the growers exceeds \$2,000,000, and that the government derives an even greater annual revenue from the manufactured products than do the growers from the leaf tobacco, it seemed high time that definite steps be taken to aid the basic portion of the industry to find out where it stands.

The tobacco industry is peculiarly subject to shifts and changes—shifts in production, in demand, in methods of marketing. It is the victim of the vagaries of a large, and scattered, and heterogeneous, luxury-consuming public. Snuff, once the favorite of royalty, is now of unsavory reputation and used chiefly in the backwoods; the cigarette, much frowned upon a few decades ago, is now the favorite everywhere. Since different types of tobacco are used for these different manufactured products, and since the different types can be profitably grown only in certain localities and on certain soils, a marked shift in preference from one "smoke" to another may cause acute distress in those producing areas in which the leaf for the waning favorite is grown. Thus the localities that are suitable for growing snuff and chewing tobaccos are now suffering the effects of a declining demand whereas those that grow the cigarette type are witnessing a constantly increasing per capita demand.

Since this liability to change has been true throughout the history of the industry, and is still true, it is evident that some long-distance, impartial eye is necessary to review and evaluate the changes, to study price changes, to chart trends, and to foresee coming movements if possible.

Work in these directions was brought to a focus last year by the passage of the United States Tobacco Stocks and Standards Act, which authorized and directed the Secretary of Agriculture to compile and publish quarterly reports of the stocks of leaf tobacco in the United States in the possession of manufacturers, warehousemen, brokers, and others. The act also authorized the Secretary to establish the classification to be used in reporting leaf tobacco stocks, which means a definite step forward in the work of establishing standards for American-grown tobacco. At about the same time money was appropriated to extend to tobacco the same kind of Federal-state inspection service that has been available for many other farm products.

To carry out these provisions adequately several of the tobacco experts in

the Department of Agriculture were brought together to form a new unit whose chief concern shall now be the welfare of the tobacco industry in those basic aspects of production and sale.

Tobacco production has not been characterized by expansion so much as by a long-continued tendency toward increased specialization. In some localities it has become the dominant feature of the agriculture; it is grown as a cash crop; whole neighborhoods are virtually dependent for a living on the outturn, and the local banks are vitally interested. It has a relatively high value per acre, but the labor requirements for its culture are large and exacting. Yield per acre fluctuates widely from year to year, and the total crop varies greatly. Moreover, large quantities of fertilizer are used in growing the crop.

The crop is extremely sensitive to slight variations in soil and climate. Soils suited to one type of tobacco seldom prove suitable for some other type. The result has been the localization of tobacco production into well-recognized "type districts," in which distinctive curing methods, combined with soil and climate, have evolved types of leaf that are peculiar to those districts and are adapted to certain manufacturing needs. For instance, the light, sandy soils of southern Virginia, the Carolinas, and parts of Georgia and Florida produce a light, aromatic tobacco which, when cured in heat but without smoke (flue-cured), possesses a bright yellow color. This is our most important cigarette tobacco. Besides being used in nearly all of the cigarette blends, it is sold in vast quantities to Great Britain, China, and other foreign countries. Several countries have attempted to duplicate the American flue-cured tobacco, but although China and perhaps some other countries have duplicated it in appearance, the aroma which distinguishes the American product and causes its popularity has never been equalled.

Shifts in production sometimes have a marked effect on state totals. Thus, Missouri and Ohio, once important tobacco producers, now show only negligible figures whereas the Connecticut Valley, South Carolina, and Wisconsin have come strongly into the picture. Kentucky has held its lead in quantity of production for many decades; and North Carolina, Virginia, Pennsylvania, Tennessee. Maryland, New York, and Indiana have long been on the list.

Marketing methods in the industry are many, and some of them have also had their ups and downs. The majority of our tobacco has always been sold by auction, of which there are three kinds; loose tobacco auction sales, packed tobacco auction sales, and closed-bids auction sales. The auction sales follow a tradition of their own and are often extremely confusing to farmer-producers. Cooperative marketing of tobacco has waxed and waned with rather spectacular effect and its possibilities are again being considered in some localities.

Earlier economic studies of tobacco have always come up against the fact that there were no generally recognized or standardized grades for tobacco. This lack has handicapped the farmer in preparing his tobacco for market and in making sales; has justified buyers in allowing for wide variations of quality in a given lot when making a bid; has hindered the use of quotations; has handicapped the financing of stored tobacco; and has worked other disadvantages.

Since the publication of the standardized grades developed by the Department of Agriculture, it has been possible to store tobacco by grade in Federally licensed warehouses and to issue warehouse receipts that are considered as excellent collateral by the banks; it has been possible to report on different types and grades in terms that are understood in the same way by all factors in the industry; and it is increasingly possible for the farmers to have their tobacco graded before sale; to sell it more or less by grade, and to compare the prices they are receiving with the prices received by other farmers for similar grades.

To bring the grades to the attention

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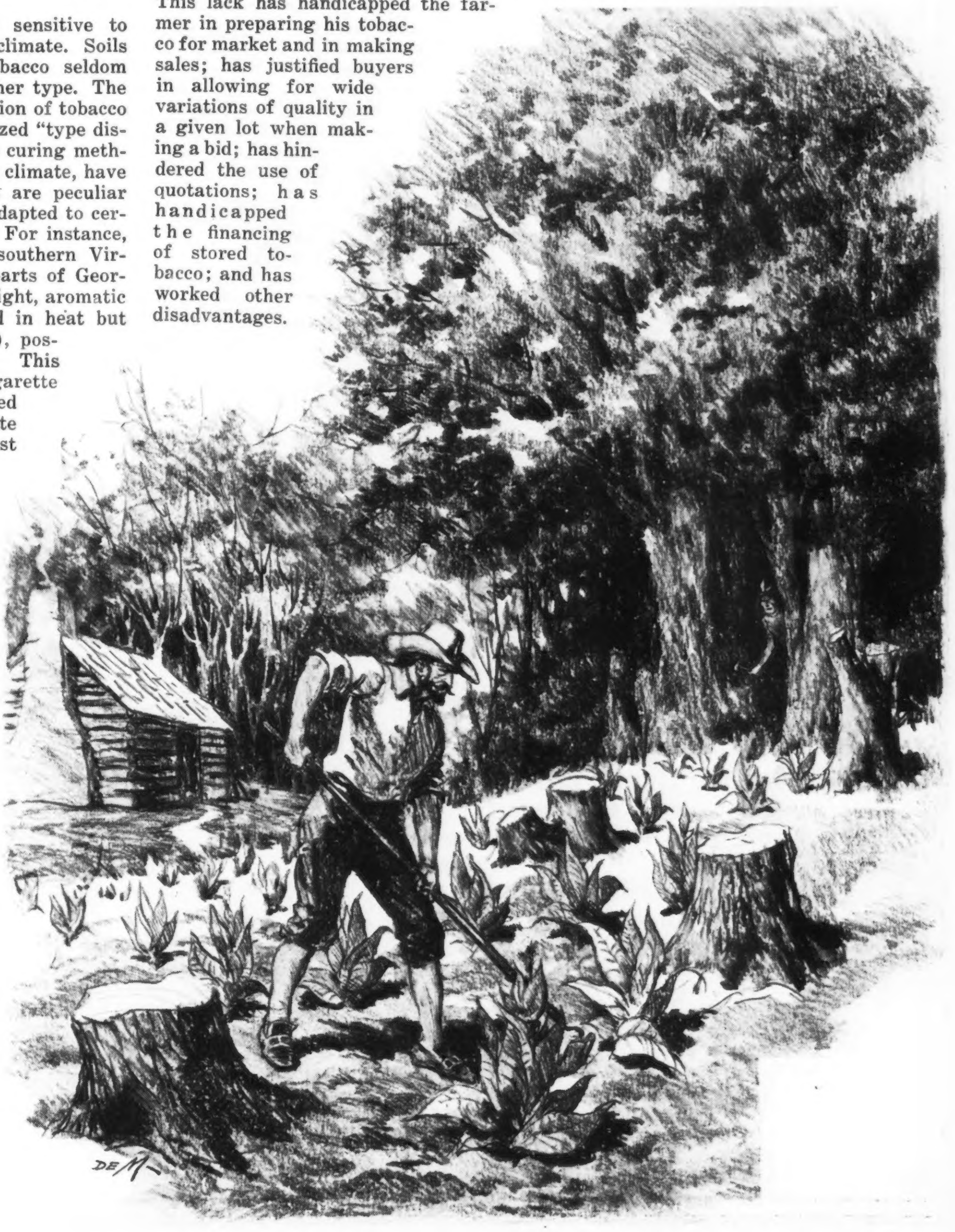
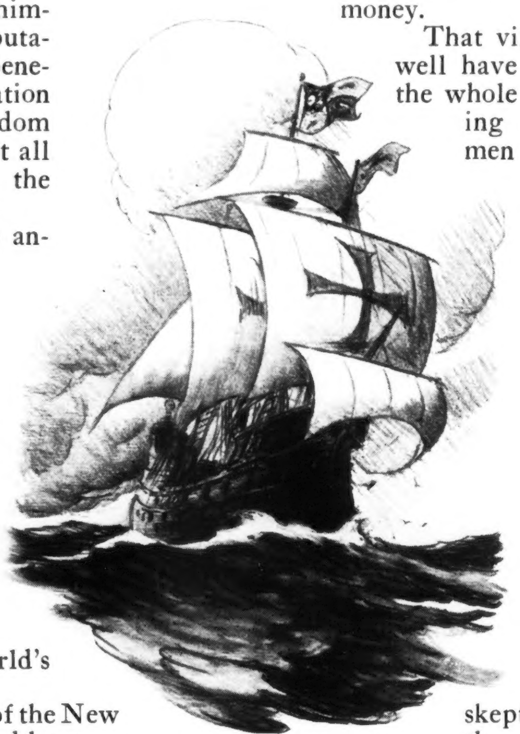


Bonded Roads—Installment Cars

"LOOK at them," sarcastically exclaimed an old native of a mountain village pointing to the stream of traffic, "look at them riding by in installment automobiles, on bonded roads!"

In that sentence he established for himself a bit of a reputation as a man of penetrating observation and profound wisdom and thereby put it all over the rest of the village wiseacres.

None dared to answer him and those who were still paying installments silently slipped into their seats and stepped on the gas, as if they had done something to be ashamed of.



But if there were no credit—how slow would be the world's pace!

The discovery of the New World was effected because a Queen was willing to pledge her jewels to make possible Christopher Columbus' expedition.

The Continental Army was kept together with $50,000 that Robert Morris borrowed.

As well cry out, "Look at the United States digging the Panama Canal on bonds;" or the State of New York building a barge canal on bonds; or a transcontinental railroad built on bonds years ago still carrying bonds; or the United States entering the World War with money raised on bonds.

Crops are planted, herds are raised and fattened on borrowed money.

That village sage might well have added, "look at the whole human race living on credit," for men credit the belief that the sun will rise tomorrow—that summer will come again and after that the harvest.

A good part of life is faith in the other fellow, giving credit to his good intention, his ability and industry—quite as airy and as unsubstantial a basis as any scoffing skeptic might wish, though for all its airiness somehow sustaining a mighty structure of civilization!

Vision, faith and credit lead us onward.

Without these three, progress would cease and the race would slip backward.

James E. Clark

The Country Bank and the Chain Store Account

By C. F. ZIMMERMAN
President, First National Bank, Huntingdon, Pa.

Of 70 Accounts in Pennsylvania Banks, 36 Per Cent Were Found to be Very Satisfactory; 17 Per Cent Fairly Satisfactory; 26 Per Cent Unsatisfactory and 21 Per Cent Very Unsatisfactory. Greatest Trouble is Banker's Fear of Losing the Business.

PREPARATION of an article for general reading on the above topic, leaves much to be desired. One wishes it were feasible to pay a definite tribute to certain of the old-line well established chain store systems whose transactions with local depositories are in universal favor. To do so however would result in invidious comparisons, and would not promote a broader visioned program on the part of those managers of chain store systems, who for reasons best known to themselves are giving local depositories scant consideration.

Observing the Ratios

IT is obvious that in a business developed on the basis of mass purchases and mass distribution—with ever enlarging inventories occasioned by opening new stores—a prime element is that the proceeds of cash sales should be made available as promptly as possible. The wider the spread of stores in a given territory, the greater become the obstacles in the way of a prompt transfer to money centers, of cash received over the counter.

One can readily picture the distress of the finance committee of a large chain store system in contemplating the volume of inactive funds on deposit all over the country at the end of a given period. With oft-recurring seasonal demands for exceptional amounts of ready cash, these inactive funds loom up more and more as an asset not fully realized upon. It would seem reasonable from the point of view of the management that this whole amount might very readily be cut in half if the situation were dealt with more efficiently. Efficiency is a word to conjure with in the processes of business. Many crimes have been committed in its name. In the interplay of forces where the chain store field is showing diminishing net returns per unit due to the growth of chain store competition, this question of efficiency in the control of working capital becomes more and more acute. One inevitably sees the ratio moving higher and higher between inventories and gross sales as well as between cash in local banks and gross sales. In other words there ensues at the head office a steadily growing sense of the necessity for holding these ratios at a minimum level. Growth of the ratio between idle cash in local banks and gross sales is particularly disturbing, because it would seem to be within the power of the financial brains of the concern to control it without much difficulty.

The Minds Are Meeting

IT may be presumed that the average chain store account is under a cloud at the average country bank, merely because the chain store is a non-resident distributor of merchandise. This is not the case. The country banker is just an average forward-looking American, desirous of keeping abreast of the onward march of business progress. The rapidity with which new chain systems are entering all of our cities and towns, has brought about an insistent questioning among bankers as to the experience other banks are having with local chain store accounts. When therefore the Secretary of the National Chain Store Association suggests that the banking problem for the chain store is a "question of determining what method of banking makes the greatest possible contribution to efficiency in distribution," he is pointing to the same set of conditions that have aroused the banker's questionings. He is suggesting that at least some of the chain store managers regard "the banking problem" in the light of a long-drawn-out controversy. He indicates his understanding of the fact that the banker wishes to have his bank compensated for services rendered and that the banker is apt to hold his ground against exploitation of his bank by any or all business houses, whether local or nation-wide in their operations.

The banker would be well pleased if under our present system of exchange, goods could everywhere be sold by chain stores in the form of reserve city funds; but so long as it is necessary for him to count the cost involved for his bank in making local deposits available at the reserve city, he will very likely ask to be fairly compensated. He in fact fails to see the point in "efficient distribution" if under the pressing necessities of the mechanics of the process, no adequate consideration can be given to the evident necessities of our established system of banking.

A Dilemma for the Banker

TRUE it is, the average chain store account plays a very inconsequential part in the round of the bank's daily activities. Nevertheless, the country banker is apt to be considering that in the aggregate, the banking methods of certain large chain-store systems, are working a continuing injustice to country banks as a class. As for any unsatisfactory chain store accounts he happens to have on his books, he recalls that he solicited the business in the first place and that the courteous letter received in reply, was to him an omen of happy business relationships to be. As the working balances inevitably dwindled to the point where the compensation, if any, was of microscopic proportions, the banker in most cases has allowed the uneven contest to go by default, rather than enter upon a discussion by correspondence such as would seem to place him and his bank in the "small potato" class. He finds himself face to face with a situation where an appeal from him for mutually helpful and mutually profitable relationships in business, would seem trivial indeed. On a day when the joke has gone far enough, he stands up "on his hind legs" and chases this worthless business out of his bank. Then the process begins all over again with his banker friend across the way—both of them the while being unwise enough not to be united in defense of their common interests.

A Personal Inquiry

IN an endeavor to benefit by the views of other bankers on this subject, the writer recently addressed a letter to twenty-two banker friends in Pennsylvania, prominent in their respective communities, asking for their experience with chain store accounts. It was suggested that the account be given by name and placed in one of four classes as follows: Class 1, very satisfactory balances; Class 2, fairly satisfactory balances; Class 3, unsatisfactory balances; and Class 4, very unsatisfactory balances. The replies indicate that some

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Letters to Branch Managers

Banking Under the Pressure of the Closing Year of the War. Hard Times Can Be Utilized to Pave Way for Future Business But Bank Must Differentiate Between Financial Function and Eleemosynary Responsibilities. The Great Test of Liquidity.

BANK management meets its crucial test under abnormal business conditions. The closing year of the war presented a situation that was a challenge to banking everywhere.

This selection of Mr. Powell's letters covers the last year of the war. He is general manager of the Weyburn Security Bank of Canada. Previous letters dealt with the conditions in the earlier years of the war. In these is reflected with unusual clarity a well defined policy for meeting the pressure that came from all sides as the great conflict was coming to an end. There also stands out the ever-present responsibility of the banker to safeguard the future welfare of the community. Thus is developed a technique which utilizes hard times to prepare for better days. The letters continue:

A Few Were Crooked

"OCTOBER 25, 1917—I am studying local conditions as best I can but am anxious to see that all of the branches get in line with the ones which have already made the biggest reduction in bills receivable. We wish to reduce our bills receivable to the lowest possible point and not cause too much hardship among our customers. By asking people to pay and getting their reasons why they cannot pay, you will find where your weak business is and will also find out which customers are reasonable, which are unreasonable, and you might possibly find a few who were crooked.

"It is giving you a splendid chance to analyze your customers and the strength of your business. One of the greatest tests of a bank is the question of how liquid its loans are, that is how much they can be reduced on short notice. You can easily see that some of your paper comes a long way from being liquid."

Watch for the Renewals

"OCTOBER 30, 1917—At this time of year I begin to watch for the renewals made until January 1st next. As a rule this means a renewal until next fall. A renewal to Nov. 1, Nov 15 or Dec. 1 generally means there is some hope of the note being paid. If paper is to be renewed until Jan. 1, it means a renewal until next fall, so I wish you would make comment telling us the exact situation. If there is some reason why it should be renewed until Jan. 1 with hopes of its being paid a little later on. we would like to know from what source payment is expected.

"At this time of year, we must make our collections. Of course there are exceptions in the case of people who always wait until late in the season to pay, but this year, particularly, I can see no reason why a man should want to carry his wheat through December, as the price will not be better and may be poorer. There has been no guaranty given as yet that the government will continue to pay the present price. We assume it will, but that is as far as we are able to go."

"Use the Knife"

"NOVEMBER 15, 1917—I was very much pleased to have the remark of one of our managers in one of the newer branches called to my attention the other day. It seems that an over agressive competitor had been offering to cut rates on sale paper in order to get some business which he thought would go to our bank. The holder of the paper made a call on the manager of our bank trying to get him to compete on the price for the paper. The reply made was that the bank refused to compete in anything except the matter of giving service.

"If this has become the underlying principle of our institution, nothing can keep us from being a success. If we give service the public is always willing to pay what is right for the service. I might say that the man who offered to cut the rate on the sale paper will not get it even at the low rate."

"NOVEMBER 26, 1917—Local conditions are still controlling the reduction of bills receivable at some points more than at others. I find that the good weather in the West is affecting our Western branches more than our Eastern ones, that being a newer country, the farmers have a little more cleaning up to do than in the older districts, but all of the branches have done remarkably well. Improvement could be made at some offices, but we have no fault to find with any of them and feel certain that customers and employees of the bank are using their best endeavors.

"Some customers still need a little jogging up and pushing along, and you may find some weak spots that will need nursing or hammering as the case may be. The same does not apply to all financial diseases and troubles. You may find some that will need amputation and do not be afraid to use the knife if it is for the best interests of the institution. We are not working for big totals but good totals."

A Patriotic Duty

"DECEMBER 7, 1917—The bank has certainly shown its ability to reduce loans on short notice. Of course conditions have made it possible to make this reduction, and if we had asked for a reduction before the grain was threshed, I am afraid our call would have received very little response, but we know when we loan to the farmers we must wait until they produce a crop, so this is always taken into consideration in figuring our strength, and we have to have some surplus reserve to take care of breakers from the first of the year until the next crop is produced. The shadow which hangs over us all the time is whether we will get the crop and what the price is going to be, and until business is more settled and the war over, we will have to carry a large surplus reserve for just such contingency."

"DECEMBER 27, 1917—I am receiving inquiry from some of the branches as to what course to pursue in regard to loaning after the first of the year. My response to one of the branches, I think, covers the situation very well so will give you all the same reply. At this office, bills receivable were reduced more than at most of the offices, but we feel all have done the best they could:

"'We have noted with great satisfaction your reduction of bills receivable. It has been greater than anticipated. After such a big reduction you are bound to have quite a call for money which will be legitimate. We are anxious to keep our loans down to the smallest point possible and give our customers the accommodation which they need and really deserve. We do not expect to finance them for unnecessary things as the government demands on us are getting more all the time and their call is first. The use of money will have to be curtailed along with the use of sugar and other war necessities. It is a patriotic duty to get along with as little financial assistance as possible, just as much as it is not to waste food. Men, food and money are all necessary to the government in order to win the war.'"

"JANUARY 19, 1918—The demand for money is exceptionally strong since Jan. 1, and our bills receivable going up

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Trade Follows the Telephone

By M. C. RORTY
Vice-President, International Telephone and Telegraph Corporation

Telephonic Connections Will Soon Link Latin American Lands With One Another and With United States. Communications are Enabling Southern Republics to Grow Economically More Akin to This Country. Transmitter Seen as a Pioneer of Business.

IN the days before the development of electrical communications, the lines of transportation, which carried international commerce, carried also the mails that guided and directed commerce. During this period communications, as such, had no separate or special influence on international trade and political relations. These relations developed largely through transportation, and the corresponding communications followed step by step, but always in a subordinate position.

However, in more recent years, with the rapid development of electrical communications by wire and radio, the communications services have ceased to be wholly subordinate factors in the development of international relations. The establishment of adequate communications between countries may take place independently of the establishment of direct transportation facilities; and a rapid and efficient communications service may be an active factor in the subsequent development of trade and transportation, and, perhaps even more importantly, in the development of friendly and wholesome understandings between nations.

Trade Pioneering

IT is true, of course, that international communications services cannot be maintained on a self-sustaining basis many steps in advance of the associated development of trade and transportation facilities. However, if we consider both communications and transportation from the standpoint of trade pioneering, it is in these days a simpler and less expensive procedure to take the first pioneer steps in the communications rather than in the transportation field.

A direct comparison of the relative costs of transportation and communications may be made by considering the normal ratio between international ocean freights and the corresponding international cable and radio receipts. Using experience in the United States, it will be found, as a rough average, that international cable and radio receipts will amount to about 5 to 6 per cent of the ocean freights to which such international communications are related. If ocean passenger receipts are added to ocean freight receipts, this ratio becomes approximately 4 per cent. To extend such crude comparisons a step further, each dollar of ocean international trade, i.e., of exports and imports combined, represents from seven cents to eight cents in freights and about 4/10 cents to 5/10 cents in payments for international communications services. These ratios, of course, vary widely with the nature of the trade, and the distances involved. However, for all Latin America it is estimated that, on the average, from 30/100 to 35/100 cents is paid for international communications per dollar of foreign trade—almost the same figure as for the United States.

The communications services are not only the agencies and auxiliaries of international trade, but may also become in themselves important elements in such trade, particularly in the field of international investments. This is specially true of the telephone service which, until very recently, has been primarily an agency of intra-national rather than international commerce.

Dwarfs All Others

FROM the standpoint of the investment required the telephone service dwarfs all other services. In the United States, telephone service represents an investment of approximately $4,000,000,000, and the interior wire telegraphs an investment of approximately $350,000,000. As compared with these services which are primarily intra-national, the international submarine cables and radio telephone and telegraph services related to the foreign trade of the United States, involve an investment, specifically applicable to such trade, of perhaps $200,000,000; and, even of this total, it may be more appropriate to think of only one-half as being allocated to the United States and the balance to the distant countries with which the communications are interchanged.

Similar figures for the other extreme of the hemisphere show roughly, in Argentina, an investment of $75,000,000 in interior telephone service, $25,000,000 in interior telegraph service, and perhaps $16,000,000 in international submarine and radio telephone and telegraph services. This later figure, as in the case of the United States, should perhaps be divided by two to give the portion strictly allocatable to Argentina.

On a per capita basis the figures are

roughly: Interior telephone service, United States, $33; Argentina, $7; interior telegraph service, United States, $3; Argentina, $2.35; international services, United States and Argentina each about eighty cents.

Initial Agencies

IN connection with the preceding per capita figures, it is interesting to note that the differences between Argentina and the United States are more or less typical of their relative stages of economic development. In the mileage of railroads and interior telegraphs, which are the initial agencies of economic progress, Argentina has a development relative to its population, which, as a matter of fact, is slightly greater than in the United States—i.e., about 22.4 miles of railroad line and 192 miles of telegraph wire per 10,000 population as against corresponding figures of 21 and 170 for the United States.

Furthermore, it has been pointed out, the investment required by Argentina in international communications facilities is the same as for the United States, approximately eighty cents per capita. This latter equality in per capita figures is due to the fact that Argentina, in spite of a lower general rate of economic activity, is in an earlier stage of economic development than the United States with a relatively greater dependence on foreign trade and with an industrial development that still has most of its growth to come.

As opposed to the preceding figures, the development of Argentina in improved highways, in the use of automobiles, and in telephones—all of which naturally follow the railroad, the telegraph, and the submarine cable as agencies of economic development—is distinctly inferior to that of the United States. Argentina, at the end of 1927, showed 2.27 automobiles and 2.12 telephones per 100 inhabitants, as against 19.50 automobiles and 15.61 telephones per 100 inhabitants in the United States.

Submarine Cables

CONDITIONS in Argentina with respect to communications are reasonably typical of those in Southern Brazil, Uruguay, and Chile, and in other portions of the South American continent that have the climate, population, and natural resources required for an intensive economic development — and the rough figures quoted are perhaps adequate without further elaboration to give a general idea of the magnitude and trend of the communications problems involved, not only in South America but in Latin America as a whole.

During the past three or four years rapid progress in the establishment of improved communications facilities between the United States and Latin America has taken place. The first step in this direction was the linking in 1921 of the Cuban Telephone System with that of American Telephone and Telegraph Company in the United States by means of three submarine telephone cables between Havana and Key West. The Cuban Telephone System is now strictly comparable in efficiency with that in the United States, and subscribers in any portion of the Island of Cuba can now converse readily with any telephone subscriber in the United States, Canada or Mexico, and, by trans-Atlantic radio telephone, with the majority of European telephones.

The second step in the establishment of an improved Latin American communications service was the re-acquisition from the Mexican Government in 1925 of the plant of the Mexican Telephone and Telegraph Company and the initiation of an extensive program of local and long distance telephone construction in the Mexican Republic. This program resulted, in 1927, in the inter-connection of Mexico City, Tampico, Monterey and other of the more important cities of Mexico by means of highly efficient long distance telephone lines with the telephone system of the American Telephone and Telegraph Company in the United States, which inter-connections in turn made possible efficient telephonic communications between telephone subscribers in Mexico and telephone subscribers in Canada, the United States, Cuba and the more important European countries.

Unification of Interests

THE initial step of the International Telephone and Telegraph Corporation in South American development was taken in 1927 through the acquisition from British shareholders of a majority interest in the Montevideo Telephone Company. This was followed by the purchase of similar interests in the Chile Telephone Company, in the Companhia Telephonica Rio Grandense, operating in the State of Rio Grande do Sul in Brazil, in the Sociedad Cooperativa Telefonica Nacional of Montevideo, and in the Compania Telefonica Argentina of Buenos Aires. These acquisitions were substantially rounded out, at the beginning of the present year, by the acquisition of a majority interest in the United River Plate Telephone Company of Argentina, which is the largest single telephone company operating in South America.

During the period while these telephone properties were being acquired, that is to say in 1927-1928, the way was opened to a further improvement and amplification of communications facilities between North America and South America through a merger of interests between All America Cables and the International Corporation. The All America Company had for many years been rendering a highly efficient submarine telegraph service to practically all South and Central American countries. The unification of its interests with those of the International Company opened the way to a further improvement of both telephone and telegraph service through the joint use of facilities, and particularly through the mutually supplemental association of the submarine cable operations with the radio telephone and telegraph operations which the International Corporation was initiating.

Linked Telephonically

A FURTHER move toward the unification of communications facilities between the United States and Latin America was taken by the International Company at the beginning of the present year through the negotiation of an agreement with the French Cable System, under which the International Company undertook to operate the cables of the former company extending from New York to Hayti, San Domingo, Venezuela, Porto Rico and the Dutch West Indies.

As the result of the various steps previously enumerated, recent progress in the development of communications between the United States and South America has been rapid, and further important developments are in immediate prospect.

The initial improvement has been the utilization of the existing facilities of the All America Cables Co. between Montevideo, Uruguay and Santiago, Chile, for the establishment of long distance telephone service, in 1928, between Montevideo, Buenos Aires and Santiago. This was followed shortly thereafter by the extension of the same facilities to Valparaiso.

Supplementing these telephone developments by submarine cable and land wires, radio telephone and telegraph concessions were secured in Argentine, Chile and Colombia, and negotiations for similar concessions have been initiated in Brazil and Peru.

Experimental conversations have already taken place between the Argentine radio station and the International Corporation's radio station in Madrid, and it is expected that shortly, subject to the completion of certain necessary formalities with the governments involved, most of the telephone subscribers in the Republics of Uruguay, Argentina and Chile will be linked telephonically for commercial service with all important European countries, via the Madrid radio station of the International Company and the connecting European land lines.

Only a Beginning

IT is perhaps appropriate that the first trans-oceanic telephone connections from these countries should be with Spain, their mother country, but the present project provides, nevertheless, for similar connections to be made during the next six months with a radio station now under construction in the United States. When this second link is completed, the United States will be connected telephonically, not only with Mexico and Cuba, but also with Uruguay, Argentina and Chile, and all of these countries may intercommunicate by telephone among themselves, either by land wires or submarine cables, or by radio, or by a combination of the three, as required.

The telephone inter-linkages above indicated are, of course, only a beginning. Advances in electrical technique are making it possible to utilize not only land wires, but submarine cables, for simulta-

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A Source of Additional Revenue

By H. G. PARKER
Vice-President, Standard Statistics Company

Overriding Commission on Securities Purchased by Banks for Investors Proposed both as a Profit Earning Service and as Protection for Customers Against Worthless Stock Selling Schemes. Country Districts Especially Need Some Such Plan.

IT is very generally realized that during the past two years, interest in the stock market on the part of the American public has been greater than ever before in the history of the country. Everyone has wanted to buy stocks and has, to an almost unbelievable extent, been interested in equity shares. Investors who in earlier years would not have thought of putting their surplus funds into anything but high grade bonds, and people in moderate circumstances who depended upon the savings banks to care for their hard-earned savings, have become holders of stocks in enterprises of every character.

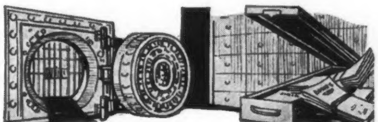
The pity of it is that this era of speculation has again been a boon to the bucketshop operator and to the peddler of dubious and worthless securities. The average amateur investor even when located in the larger cities of the country has found it a difficult matter to purchase the only class of stocks which should really appeal to him.

Can Operate Anywhere

BUT the men or women in the small town or in the country—who are just as much interested in the purchase of high grade common stocks as are those in the larger centers of population—have not been afforded any exchange facilities except such as may have been gratuitously furnished by their local banks. Many thousands of them are miles away from a town large enough to house an office of a stock exchange member and they have not been able to spare the time to make long journeys for the purpose of placing orders for securities. The small commission charged by the various exchanges necessarily limits the number of branch offices which can profitably be maintained by exchange members.

Bucketshop operators and "fly-by-night" brokers whose profits often run as high as 100 per cent can naturally afford to operate anywhere. They do not, you may be sure, neglect this large and profitable field, but vigorously go after business of this sort through the use of the mails, the telephone, the radio and even through personal solicitation by high pressure salesmen. That is the principal reason why the American investor is yearly mulcted of literally millions of dollars.

Plans without number have been promulgated for the purpose of protecting the uneducated investor from the wiles of these financial pirates. The reputable financial publications have for many years consistently warned against their practices. Nevertheless, these parasites continue to flourish and other means must be found to limit their depredations.



Dual Protection

AN idea by which banks may fill a need, and fill it profitably, is offered here. Public interest in the stock market has caused a great increase in free banking service in some quarters. In others potential investors have fallen the victims of financial snares by buying spurious securities without seeking the advice of their bankers. It seems possible that banks could protect the investor and at the same time protect themselves from loss by a reasonable charge for handling investments.

Facilities and Prestige

ANY experienced merchandiser will agree that worthless merchandise can not be sold once the purveyors of high grade goods adopt even reasonably comparable selling methods. High grade equity securities have the benefit today of a well organized "wholesaling" organization. Nothing which could by any stretch of the imagination be called an adequate "retail" system exists.

If it is admitted that a retailing system is lacking, it then follows that something should be done about it. To build up such an organization would be tremendously difficult and expensive. But that is not necessary.

Two separate organizations which have the facilities and the required prestige already exist. The two organizations referred to, of course, are the banks and our well organized bond distributing organizations.

Surely if a prospective investor in the small town or in the country were offered adequate facilities to buy high grade bonds, preferred and common stocks, listed on the various stock exchanges throughout the country, it is reasonable to expect that he would prefer them to the "wildcat" issues which he is now being importuned to buy.

He Knows His Banker

BUT up to this time, there has been little incentive to the banks to encourage and foster the purchase of listed securities. There is scant profit to the banks in executing these orders. All most of them get out of it is expense and trouble and a certain amount of good-will.

Undoubtedly, the investor in the small to moderate-sized town and in the country district would much prefer to handle all of his financial transactions through his local bank. He knows his banker thoroughly — sometimes intimately — and has full confidence in his integrity. He goes to him for advice and for many forms of service and has always found him willing to help.

Many of the more progressive banks, through local advertising, invite their friends and depositors to come to them with all their financial problems and have organized service departments to care for these clients. Very many others have, while not specifically inviting this sort of business, been entirely willing to be of all possible assistance to their clients.

A Virgin Field

A SIZABLE proportion of these customers are interested in the purchase of high-grade stocks, listed on the various stock exchanges and want to use the good offices of the bank in buying them. The local bank would naturally prefer to have its customers purchase this class of security rather than the dubious issues, which are available to him from questionable sources, but the bank must execute these orders at no profit to itself.

It would appear to be good business on the part of members of the stock ex-

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EDITORIAL

Each Other's Washing

ECONOMISTS are wont to say that two women can not make a livelihood by taking in each other's washing. That is perfectly clear and absolutely true. Not so plain, but relatively true is the fact that genuine prosperity can not be either produced or maintained by a superabundance of securities feverishly passed back and forth.

Economic Understanding

TRADE, not legendary Helen, was the cause of the siege of Troy. At least eminent economists have proved that to their own satisfaction. So at least would seem to be the case in the light of all conflicts between nations that have followed the Trojan War. Trade is the potent factor of international dispute, romantic historians to the contrary notwithstanding.

President Hoover and Premier MacDonald, of Great Britain, have shown the world something new in the movement to prevent future wars. Seated side by side upon a log overlooking a peaceful stream they exemplified the power of mutual understanding.

The limitation of armaments, which was the subject that has brought these two statesmen together, is one approach, and a logical one, to relegating warfare to the scrapheap of the obsolete. Many a stone would never have been thrown had it not been immediately accessible to an angry hand. The less of the expensive panoply of war there is available the more war becomes a matter of second thought. And second thought considers waste in human life and treasure.

There is another approach to the avoidance of war that can engender a confidence which will further lessen the waste that constant preparedness compels. It lies in a mutual understanding among the nations which can be attained when they consider economic problems as world problems. The broad view is highly conducive to second-thoughts.

Perhaps the new international bank set up under the Young plan—one of the most comprehensive international cooperative efforts yet conceived—may be a potent agency toward this mutuality of understanding.

Not Enough Bankers?

ONE of the most satisfactory and popular explanations as to the cause of banking troubles was that we had too many banks and not enough bankers. Incisive and epigrammatic as it related to the past, and withal a sharp warning to those who might in the future try a hand at banking, no other diagnosis of the banking ills of these times has had such a long run to its credit. Nor is anything going to upset it now but in "A Study of Group and Chain Banking" just issued in pamphlet form by the Economic Policy Commission of the American Bankers Association, there is something that gives warning not to be too precipitate in deciding just what a banker is.

The report quotes the operator of one of the individually controlled chains of banks in Oklahoma as follows:

"My experience with the small country banks is that they cannot be operated by a man that is merely a clerical man. The greatest successes that I have seen in the small country banks has been where some good intelligent farmer has been the cashier and manager. No trouble to get clerical men to do the bookkeeping, but the main thing in the small country banks is to have a farmer that knows what a farmer needs, knows the value of livestock and the amount of accommodation a farmer should have. Nine-tenths of the small country bank failures in Oklahoma since 1920 were caused because the cashier and the general manager was a young clerical man without the experience and knowledge that he should have had on farming conditions. Every little country bank that I have been connected with that was controlled and managed by a man that had been a successful farmer never had any trouble and nearly all of them paid dividends every year, but I found that where we had a young man who was a fine bookkeeper and competent to run every part of the bank except the farm loans, they almost invariably failed."

By one set of standards the farmer is not a banker, but according to the experience and observation of the man quoted above he may nevertheless make safe loans and conduct a safe business whereas the bright young man who far surpasses him in the fine technique of banking gets his institution into trouble.

The Stock Market

WHAT happened in the stock market late in October is now history. But this does not mean that the cataclysmic crash in security values that took place can be relegated to the limbo of forgotten things. History is no mere cataloguing of incidents, with dates. It is a continuity of cause and effect.

The causes of the stock market debacle are generally understood. All of the effects have yet to become evident. The most desirable effect, of course, would be the avoidance of a repetition of such a smash. Time alone can show whether a lesson has been learned.

Regrettable are the losses suffered by those who bore the brunt of "Black Thursday." Nevertheless there are certain encouraging elements in the situation which it is to be hoped will stand out among the after-effects.

For months, in fact, for years the Federal Reserve System has been stubbornly seeking to temper the edge of speculation with the sheath of common sense. The Federal Reserve Board has been almost like a voice crying in the wilderness—almost, but not quite. For there were some who heard. Banks cooperating with the reserve system had made possible a condition

wherein credit escaped the shock which staggering stock markets in the past have administered.

Callous as it may sound, the break in the market has increased the prestige of the Federal Reserve System and the Federal Reserve Board. It is not that the reserve system alone foresaw what occurred. Many can lay claim to equal foresight. It is because the reserve system prepared for what it saw coming and made possible the safeguarding of the business of the country that it now occupies a hitherto unattained eminence in the scheme of things.

It is an undoubted source of satisfaction that the Federal Reserve System has justified its existence and fulfilled its purpose. But it must always be remembered that the cooperation of banks all over the country provided the foundation upon which was built the strength of the nation in the time of stress.

Therein lies the safety for the future. American banking, in the broadest all-inclusive sense has demonstrated its cohesion, its ability to work as a unit. It stands ready to meet the effects of the break in the stock market as it met the break itself.

Readjustments in a stock market of such proportions as has been maintained in this country necessarily implies adjustments in the money market. There the effects will make themselves felt. For one thing vast sums have been attracted to this country from abroad by the magnet of high rates. Foreign money in the American market bears a direct relation to gold stocks. Here may arise a problem. But the Federal Reserve System has already proved that to be forewarned is to be forearmed.

Studying Brokers' Loans

PRELIMINARY rumbles of the legislative program for the December session of Congress put brokers' loans in the front rank. Fortunately the preliminary rumbles that always precede a session of Congress contain so many matters in the front rank that most of them fall far to the rear by the time of adjournment.

Brokers' loans investigations have joined the group of hardy perennials on the fringe of Congressional legislation. No session is now complete without the shadow of some sort of a credit inquiry hanging over the Capitol. So far it has remained but a shadow.

It will be particularly fortuitous if the shadow clings to its inchoate shape this year. Machinery is now in motion which holds out a real promise of bringing some stability to the credit situation without the experiment of more laws to clutter up the statute books. The move now being made comes about as a result of the declaration of the American Bankers Association at its recent San Francisco Convention, where it said:

"It is important that the situation created by the growing total of brokers' loans be carefully studied, not through public investigation, which is spectacular and unavoidably so, but on the basis of scientific research carried on quietly by those competent to get at the facts, evaluate them and recommend and put into force such changes in procedure, if any, as may be for the public good.

"The American Bankers Association, therefore, believes that the Federal Reserve System, in cooperation with American bankers and stock exchange authorities, should take up this matter at once, ascertain all underlying facts in connection with brokers' loans, study the possibility of effecting greater stabilization of the money rate, and then introduce such changes in procedure as may be found advisable."

This is no idle gesture. Steps are being taken, quietly and scientifically, to arrange for a comprehensive study of all the underlying factors related to the brokers' loans problem. The spectacular element, which tends to stock market fluctuations, is entirely absent from the inquiry. There is none of the trumpeting of a Congressional investigation.

Nor are any sweeping pledges to revolutionize the money market being made. What is taking place is a self-analysis of the money market by the elements which make the market possible. Obviously hands have taken hold best fitted to shape procedure, if shaping is needed. Experience and understanding has been brought to the task.

And the task is being undertaken without the warming glow of the first-page spotlight.

The New Spirit

CHAIN store accounts have probably occupied the mind of the average banker more persistently than many of the other developments of the so-called new economic era. In the smaller communities chain store accounts have become almost a paramount banking question.

The question is to be answered. A spirit for developing a better and more equitable relationship between chain stores and local banks has come into being.

Chain store organizations are coming to recognize the fact that the active elements of a community are focused in the bank and that the bank is a vital point of contact with the community. Local chain stores need and receive banking service. Certainly the services rendered should be paid for by carrying adequate balances or by an equitable schedule of service charges.

In a spirit of mutual helpfulness, committees have been formed to represent the chain stores and the banks. These committees will give careful consideration to what constitutes equitable relationships between banks and chain stores. What has been an individual question has become an institutional question.

This sort of action is something new in banking. A cooperative effort to work out the proper relationship between the banks on the one hand and a large group of depositors on the other is an experiment on a grand scale. It is action that is in keeping with the times.

The familiar tendency toward concentration of business resources is fraught with problems as far-reaching as the question of chain store accounts. Each as it arises may be met with the new spirit of a mutual seeking, seeking for the best means for serving the general welfare.

UNDER an amendment to the California corporate securities act it is necessary for a bank operating a bond department as a part of the bank to obtain a state broker's license unless the bank deals only in certain exempted securities such as governmental issues. Other states may follow California's lead since it offers another method of bank taxation. However, such a statute might be a blessing in disguise if it resulted in greater bank earnings through reasonable charges for investment services.

State Banks Can Keep Step

By C. G. SHULL
Bank Commissioner of Oklahoma

Higher Standards of Management, Elimination of Inexpertness in Bank Administration and More Uniformity of Banking Laws Advocated to Enable State Institutions to Follow Trend of National System Toward Transaction of Interstate Business.

MOST of my active banking experience has been in national banks and I have no prejudice against the system and recognize the needs of the two systems in the country. Nevertheless, I am sorry to see those in charge of the supervision of the national system admitting that it is necessary to give an undue and unequal advantage to national banks in order to preserve the system. I do not think this is necessary or right.

It has been proposed to exempt the capital investments in national banks from taxation. This would not result in any advantage, as I presume most of the states have statutes like Oklahoma which provide that state banks cannot be taxed at a greater rate than national banks; so that if the stock in national banks could not be taxed, neither could the stock in state banks be taxed.

Something Is Wrong

ASIDE from this, the idea of relieving banks from taxation altogether is wrong and is not advocated by the banking fraternity. Money invested in bank stock, whether state or national, should bear its just proportion of taxation. Banking investments are or should be as profitable on the average as other lines of business. Unfortunately in Oklahoma, and I think generally in all the states, bank stock has not been fairly taxed, compared with other property.

In my opinion if banks were assessed at 50 or 60 per cent of the par value of their capital and the surplus was exempt from taxation to an amount equal the capital, provided a substantial per cent of the earnings were carried to the surplus each year, I think we would have a very equitable tax on the banks.

It has been further suggested that state banks be prohibited from handling the financing of transactions in interstate commerce. This suggestion seems to me to be too unreasonable and outrageous to receive serious consideration, and absolutely contrary to the spirit of our government. Such suggestions as this seem to be an admission that something is wrong with the system and that unjust and unfair laws must be passed by the national government to protect the system. I have more faith in the national banking system of this country than to admit it necessary to advocate such unfair and inequitable laws to maintain it.

Under Any System

TAKING cognizance of the plans of the Federal authorities for seeking legislation to enhance the scope of national bank activity, a state official here outlines what steps may be taken by state banks to obtain the same advantages. He offers nothing radical but rather a series of suggestions that would make for efficient and profitable banking under any system, while recognizing the responsibilities of state banking departments in bringing about the betterments sought.

An Inherent Advantage

MANY banks have denationalized and taken out state charters, but they have not done so for any one of the reasons which have been advanced as necessary to keep them in the system. The real reasons for these changes have not, as far as I have seen, been mentioned by the national administration in discussing this question.

Another matter receiving serious consideration of the national department is nationwide branch banking. Much has been said for and against this question, and it is not my subject for discussion. Candidly, I consider the power of Congress to grant national banks the privilege of establishing branches in any town or city of any state of the Union one of the most effective ways to monopolize the banking business of this country, and there is nothing really unfair or inequitable in the suggestion. It is simply an advantage inherent to the national system. Whether it is a wise or sound policy and for the best interest of the nation at large is another question.

I suppose most bankers have read the speech of Louis T. McFadden, chairman of the House Banking and Currency Committee, made before the Illinois Bankers Association. Mr. McFadden is the author of the McFadden Act of 1927 and is an acknowledged authority on banking. He mentioned the possibility of the passage of laws putting into force the suggestions which I have mentioned. I am sure the several utterances of J. W. Pole, the Comptroller of Currency, dealing with this same question have been read. I am convinced from their utterances that those in charge of the national banks are seriously and earnestly trying to formulate some plan to attract capital investments into the system.

Left Free to Grow

NOW just what steps should be taken to protect the various state systems against the proposed schemes to advance the interests of the national banks? There should be no antagonism engendered between the two great systems; both have their inherent advantages, and both should be left free to grow and develop as the needs of the banking communities demand, each system, without hurt or hindrance of either state or national legislation. The growth of either system will be determined by the service it renders.

There are, in round numbers, about 27,000 banks in the United States, of which about 19,000 are state institutions and 8,000 national institutions. The capital investment in the state banks exceeds that in the national banks from 50 to 55 per cent, and the deposits in the state institutions are over 50 per cent greater than in the national banks. Certainly no one can contend that favorable legislation has been responsible for this. Certainly the country has prospered comparable with the rest of the world under the present set-up of banking. Certainly during the late war the financial aid to the government came alike from state and national banks. So in peace or war the government is secure with both systems of banks developing normally and naturally as the needs of the country demand and as the service they render justifies.

If unfair and inequitable laws are introduced attempting to give an undue advantage to the national banks, such as

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The Myth of Tax Reduction

By WILLIAM PICKETT HELM

Modern Miracle Revealed by Income Tax Which Produces More Revenue Every Time Rates Are Reduced. Federal Collections Approximate Peak Receipts of Wartime Despite Four Downward Revisions of Rates in Eight Years. Corporations Pay Heavily.

SOMEHOW cutting Federal income taxes reminds me of Elijah. Every time Mr. Mellon suggests another reduction, Elijah and the ravens and the widow's handful of meal and cruse of oil come vividly to mind.

Remember the story? After Elijah had been fed by the ravens for a time, the Lord commanded him to leave the wilderness and go to Zarephath where a widow had been appointed to feed him. He found the widow with only a handful of meal in a barrel and a little oil in a cruse. These she was about to mix and cook so that she and her son, to use her words, might eat and die. Presumably no more meal and oil were in sight.

Elijah prevailed on her to set the table for three instead of two. He told her the meal and oil would be replenished. And sure enough, they were. Many times she exhausted the supply, but whenever she went back there was more. And thus they ate and lived, thanks to the magic that replaced the food as they exhausted it.

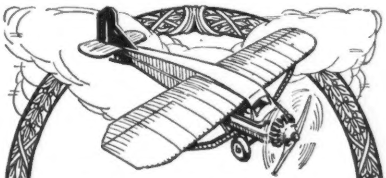
No Stingy Clippings

SOMETHING akin to this miracle has been happening at Washington during the past six years. Instead of the meal-barrel and the oil-cruse, the United States Treasury is the source of the unfailing supply. And instead of Elijah of old, one finds the twentieth century Secretary of the Treasury as the prophet of replenishment.

Four times within the past eight years, Secretary Mellon has fathered the pleasant suggestion that taxes ought to be cut. The first time he did so was in 1921, during the post-war readjustment period. Obviously that cut, in keeping with the Harding pledge, was part of readjustment from war to peace conditions. Three times after readjustment, or since 1923—in 1924, in 1926 and again in 1928—Secretary Mellon has found that the treasury was collecting more money than it needed. And three times Congress has cut taxes.

Now another tax cut looms up. Once more the Treasury is taking in too much money. Tax rates of some sort appear to be due for a downward revision, for the fifth time since 1921.

The last three tax cuts were no stingy clippings. According to official estimates, those three cuts total more than one billion dollars. One billion dollars a year. Quoting Mr. Mellon, the amount of the 1924 cut was $519,000,000, the 1926 cut amounted to $422,000,000 and the 1928 cut to $222,000,000. A good round total, running to $1,163,000,000. Such is the estimated extent to which the American people have been relieved annually of their tax burdens.



Up and Down

TAX reduction does not necessarily mean revenue reduction, as this article brings out in a simple and clear review of the record of income tax revision since the war. With Congress soon to reassemble for the December session and with rumors of another tax cut emanating from Washington, the avenues by which such a step may be taken are here explored. However, future developments can hardly avoid the up and down experience of the past.

Highlights of the Program

LET'S glance back to 1923 and see what cuts have been made.

At that time, the maximum normal tax was 8 per cent; today it is 5 per cent. And today there is a liberal allowance for earned income—$30,000 a year—whereas in 1923 there was no allowance at all for earned income.

The surtax maximum in 1923 was 50 per cent. It has been cut to 20 per cent. Nuisance taxes, including the sales tax on automobiles (which netted about $175,000,000 a year) have been abolished, with a few notable exceptions.

In 1923 the tax on corporation profits was 12½ per cent. That was increased to 13½ per cent in 1926 at the request of the corporations themselves. They preferred to pay the increase rather than bother with the cumbersome capital stock tax. The latter tax was repealed at the same time. Two years later, in 1928, the corporation rate was lowered from 13½ per cent to 12.

Such are the highlights of the government's tax reduction program for the past six years. They appear to be good, substantial reductions.

Lighter on the Pocketbook

ARE they, in reality? Did they, as a matter of fact, lessen the amount of money flowing into the Federal Treasury? Did they result in the government's handing back to the taxpayers a part of the excess it was collecting?

Did they lessen the amount of money taken by the Treasury from American taxpayers by more than $1,000,000,000 a year, as claimed?

They did not.

They did not reduce the amount of money collected by so much as a thin dime. But they did result in the Government's going lighter on a man's pocketbook; in its taking a smaller share of a man's income than it had taken before.

As for lessening the flow of money into the Federal Treasury, the last three tax cuts have been sheer myth. The treasury's official figures permit of no other conclusion.

Nobody is Finding Fault

IN 1923, under the old high rates when the tax collector demanded up to 58 per cent of a man's income, the total collected in income taxes was $1,678,000,000.

In 1929, when the most the government was allowed to take from any individual was 25 per cent of his income, the total collected was $2,331,000,000.

Where, then, is the reduction?

Ask any taxpayer, struggling over his return, if his taxes have been reduced and the answer will be a vigorous yes. Ask the bookkeepers at the Federal Treasury if the amount of money collected in taxes has been lessened and their answer will be a vigorous no.

Each successive tax cut, the record shows, has been followed by the government's taking in more money than before. It's like the handful of meal and the cruse of oil. The more taken away, the more, apparently, there is to take.

Nobody appears to be finding fault with what has been done. On the contrary, it looks like a modern miracle. Everybody in the United States—every

man, woman and child of the 120,000,000 in the national family—has benefited directly or indirectly. But as an economic fact, there hasn't been any lessening of the amount of taxes taken from the American people in the past six years.

High, Wide and Handsome

THE total collected in 1929 was upwards of $650,000,000 more than the total collected in 1923. And if that increase of $650,000,000 is defined, one does not find it under the head of "Reduction" in the dictionary.

Closer examination of the record discloses interesting detail. Let us begin with the tax cut of 1924. That was the largest in the past six years. In 1924, when Congress set out to cut taxes, the government was demanding nearly three-fifths of big individual incomes. Its maximum normal rate was 8 per cent and the maximum surtax was 50 per cent, a total of 58 per cent.

In addition, personal exemptions for single and married persons were low and there were numerous nuisance taxes. The cut made in 1924 by Congress lowered the normal tax to 6 per cent and the maximum surtax to 40 per cent; some of the nuisance taxes were abolished and others were lowered.

Under the lower rates, according to Mr. Mellon's official estimate, the nation's tax bill was cut $519,000,000—high, wide and handsome.

In 1923, under the old, burdensome rates, collections by the government, so far as the income tax was concerned, amounted to $1,678,000,000. A reduction of $519,000,000 promised collections thereafter totaling about $1,160,000,000 a year.

When It Was All Over

YET in 1925, the first year when the cut of 1924 was effective to its full extent, the government collected not $1,160,000,000 but $1,760,000,000.

The new rates did not reduce the amount collected by $519,000,000 or any other sum. On the contrary, the government collected $82,000,000 more than it collected in 1923.

The next tax cut was made in 1926. The maximum normal tax was cut to 5 per cent and the maximum surtax to 20 per cent. In other words, the maximum surtax was cut in half.

Also, higher personal exemptions were granted—$1,500 for single persons and $3,500 for heads of families. A further reduction, amounting to 25 per cent, was made in the normal rate on earned income up to $20,000; that is, theoretically, on income that had been earned as distinct from income from investments. Actually the earned income allowance applied practically to all of the first $20,000 of a taxpayer's income.

And in 1926 the sales tax on automobiles was cut almost in half.

When it was all over and President Coolidge had signed the measure, making it law, the Treasury experts announced that the reduction amounted to $422,000,000 a year.

Millions Were Excused

OBVIOUSLY, a great measure of relief had been granted. Instead of demanding a big slice of a taxpayer's income, the government was content with a much smaller slice. On big income, the toll was cut from 46 per cent under the 1924 Act, to a maximum of 25 per cent.

As for little incomes, further relief had been granted and millions of men and women were excused from paying any further income tax at all. To be exact, nearly 5,000,000 persons who had paid taxes in 1923 on small incomes were relieved from making any further payments whatever. The number of paying customers at the Treasury dropped from 7,369,000 in 1924 to 2,464,000 in 1926.

Reductions? Certainly there had been reductions. Sweeping reductions. How sweeping? The Treasury's estimate was $422,000,000 a year.

Coming back to the figures to check up, it is found that in 1925, under the old law, the government had collected income taxes totaling $1,760,000,000.

In 1926 the new law was in effect for only a portion of the fiscal year. And during that year the government collected income taxes totaling $1,982,000,000.

And in 1927, the first full year of the new law's operation, the total ran to $2,225,000,000.

Repealed the Remnant

INSTEAD of falling off $422,000,000, the government's income tax collections increased—by $222,000,000 in 1926 and by $465,000,000 in 1927. Notwithstanding the tremendous slash in rates there was no reduction in the amount collected. Instead, there was a huge increase.

That brings us to the last of the three cuts, in 1928. In that year Congress did not change the normal and surtax rates, but it did increase the amount of earned income to enjoy the lowest rate, from $20,000 to $30,000. And it repealed the remnant of the sales tax on automobiles and certain other nuisance taxes.

Further, it cut the corporation tax rate from 13½ per cent to 12.

What was the result? In 1928, under the old law, the Treasury collected $2,174,000,000 in income taxes. In 1929, when the new law had been in effect for only half of the fiscal year, the Treasury collected $2,331,000,000.

Collections under the new law increased by $157,000,000.

And it is significant that during the latter half of the fiscal year 1929, the period in which the new law was effective, income tax collections totaled $1,308,000,000 as compared with $1,023,000,000 during the first half of the year when the old law was in operation.

Thus the record shows that each reduction in rates has been followed by a big increase in the amount collected. There have been wholesale slashes in rates; there has been no reduction whatever, however, in the amount of taxes collected by Washington on American incomes since 1923.

Every year thereafter has topped the 1923 total.

Collections of income taxes are recorded by the government under two headings: individual and corporation. A study of these subdivisions is illuminating.

Corporations, taking them as a whole, the figures show, have not had a real tax cut for ten years. Or, to put it another way, the nation's corporations put more money into the public treasury in 1929, in the form of income taxes, than they had put there on any year's business since that of 1919.

Approximately one dollar out of every eight in corporate profits is taken by the federal tax collector. The exact proportion is 12 per cent.

Going over the record, one finds that the corporations paid $1,625,000,000 income tax on their 1919 business. That sum was paid in 1920. Then came the tax cut of 1921, when the corporation rate was fixed at 12½ per cent. That, by the way was an increase over the old rate of 10 per cent, but the increase was more than offset by repeal of the excess profits tax.

Payments Rose Steadily

THEN came the big business depression of 1921 and corporation tax payments dropped quite low, a condition that carried over to 1922 when the corporations paid their income tax on 1921 business.

In 1922 corporations, under the new law, paid income taxes of $783,000,000. Thereafter payments rose steadily until 1927 when they totaled $1,308,000,000, about one-fifth less than they had been under the oppressive wartime rates.

In 1928, thanks to the 12 per cent rate, corporation tax payments dropped to $1,291,000,000, and in 1929 to $1,235,000,000.

But from 1922 to 1929, the income tax paid by corporations increased more than one-half. That was due mainly to greater prosperity and more business, factors that will be discussed presently. The bald fact remains, however; corporations today are paying 50 per cent more federal income tax than they paid in 1922.

Indeed, the tax paid by corporations in 1929 was within hailing distance of the tax paid during the last year of the wartime tax schedules. Certainly there has been no lessening of taxes there. Now for the individual tax. Here the condition is even more marked.

Nearly as Much as Wartime

INDIVIDUAL taxpayers are putting into the Treasury at Washington today very nearly as much as they paid in 1918. The record shows the following payments:

1918............	$1,127,000,000
1929............	1,095,000,000

Thirty-two million dollars—less than three per cent of the total—represents

(*Continued on page* 522)

British Banks Go Into Business

By FREDERIC EDWARD LEE

Professor of Economics, University of Illinois. Formerly American Financial Trade Commissioner, London

Drastic Reorganization Measures in Depressed Industries of England Compelled by Banks. Ruinous Overhead Caused by Top-Heavy Directorates Reduced. Antiquated Business Methods are Scrapped at Insistence of Leading Financial Institutions.

EVEN to the almost casual observer of British industrial organization and operation the need for some form of reorganization or "rationalization" is apparent. Particularly is this true if one studies the balance sheet position or profit and loss account of typical industrial corporations in any one of several of the leading industries of the United Kingdom.

In the cotton industry, the coal-mining industry, the manufacture of iron and steel, in shipbuilding, and, in fact, in virtually all of the so-called "heavy industries" of Great Britain this need has been pronounced for several years—notably in the period of post-war depression in the older, basic industries of that country.

$5,000 an Hour

OUTSTANDING British economists make the statement that the Lancashire cotton industry as a whole has been operating at a loss of 1,000 pounds—$5,000—per working hour for the past five years. Bankers in the "Midlands"—in Manchester, Liverpool, Sheffield and Birmingham—confirm in a general way this estimate. How this anomalous situation has come about and how it has continued to operate for so long a period will be shown later in this article.

In the iron and steel and heavy engineering industries as well, losses have been exceptionally heavy during recent years. In such large concerns as Baldwins Limited, one of the leading iron and steel companies of Great Britain, losses in 1927 totalled over $600,000, while Armstrong, Whitworth and Campany in the same field had average operating losses in the years 1926, 1927 and 1928 of between $2,500,000 and $4,500,000 per year. Many other firms in this and in other basic industries in Great Britain have suffered similar losses during the recent years of business depression in that country.

Such colossal operating losses have more or less forced drastic reorganizations and amalgamations in several industries. One large engineering and iron and steel company whose shares were valued before its reorganization at seven pounds each, reduced the shares to one shilling each, thereby cutting down the holdings of the common shareholders by 139/140ths. Such drastic measures which have been fairly common in a number of company reconstructions give weight to the statement recently made by Mr. Stanley Baldwin, until lately Prime Minister of Great Britain, that for every shilling he owned when he entered politics some years ago he now had less than a penny. His financial interests have been largely in the iron and steel firm which bears his name.

Forced Reorganizations

SOME of the reorganizations which have been made have been voluntary, and reluctantly agreed to by the common shareholders even though their action in many cases meant virtually wiping out their holdings in the concern in question. Others, particularly in the cotton textile industry, have been to a large degree forced by the creditors of such companies, and in this industry the chief creditors were and are the British banks.

Before outlining, however, the rôle which the banks of the United Kingdom have played in such measures of rationalization, it is necessary to understand first of all some of the peculiar features of the organization of the cotton industry of Great Britain.

The cotton spinning industry of the United Kingdom, which is pretty largely centered in Lancashire and around Manchester, is organized on a capital basis peculiar to itself. The authorized capital of companies operating in this field plays a very small part in the matter of the amount of resources available for a given company's use. The passage of the Companies' Limited Liability Act in Great Britain was largely responsible for bringing this system into use.

Dividends a Grievance

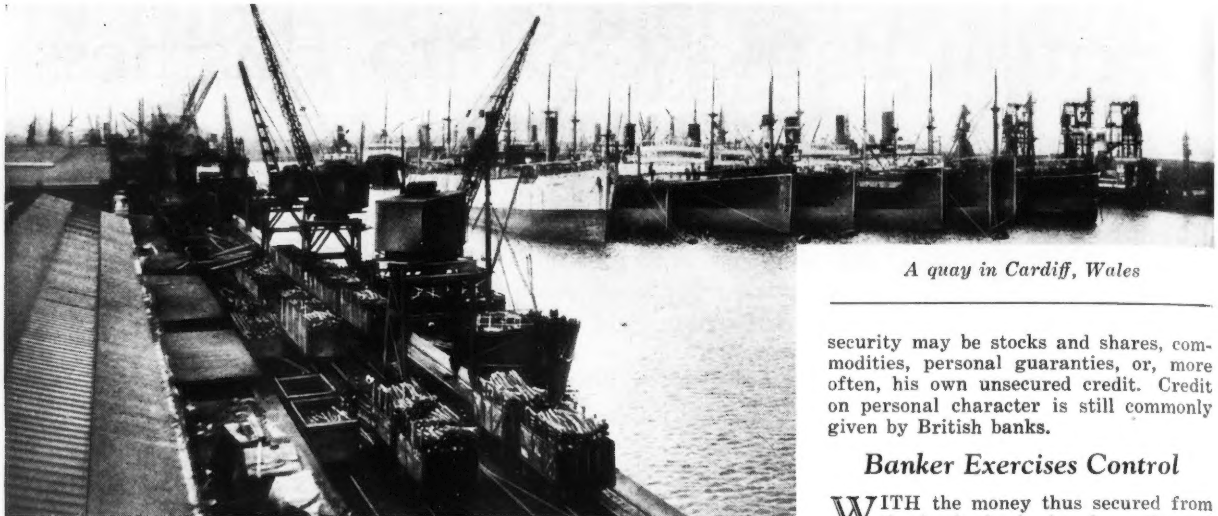
USUALLY the shares are only partially paid for and the remainder of the capital needed for operation is raised by means of borrowed money, or "loan money" as it is called in that area, on which the average rate of interest has been until recently about five per cent. This system before the war proved to be very advantageous to the industry from the fact that it provided what was considered cheap capital with a fixed rate of interest, but during the past few years of bad trade it has been found that paying interest on loan money was not the blessing it proved to be in a period of good trade. The interest on loan money must normally be paid whether the company is making profits or not, but in recent years the shareholders, who have the responsibility, have had to go without dividends, and in frequent cases have had to raise sums of money in respect to calls on unpaid capital.

During the post-war boom period the shareholders received large dividends, which was then a grievance to the "loan holders" who were putting up most of the money used. In recent years the grievance has been on the other side, shareholders receiving no dividends and shouldering the responsibility, while loan holders have been, for the most part, sure of the interest on the money loaned.

The large profits made in the boom period of 1919 and 1920 prompted a rather wholesale reorganization and expansion of most of the companies in this field. It was confidently expected that the cotton trade would be good for at least five years to come. The old shares were in five pound denominations but in the reconstruction of the companies the denomination was reduced to one pound in most cases, and in some instances even to five shillings or one shilling shares. This brought into the industry a large number of small shareholders, including a number of mill operatives who formerly had invested such funds as they had in the loan money of these companies rather than in their share capital.

Calls on Capital

WITH the depression which set in in 1920 following the boom—a depression due to lost markets, "wasteful merchandising methods, ruinous competition" and other factors—dividends on such share capital virtually ceased and calls were made on the unpaid capital. This depression has continued in the Lancashire industry year after year, and the year 1928 was said to have been the worst since the depression started in 1920. Out of 306 cotton spinning companies, with a capitalization of £55,218,000 only eighty-one paid any dividends at all in 1928, and the average was 1.4 per cent, compared with 1.8 per cent for a similar number of companies in 1927. Many of the weaker mills have been plunged into bankruptcy and many



A quay in Cardiff, Wales

others have continued operating at a loss.

Another important factor needs to be taken into consideration with the cotton industry in Great Britain if its reorganization is to be understood. In England the whole process of manufacturing cotton is not, as a rule, carried on by one concern. First there is the cotton broker, who may be an importer of raw cotton or simply a buyer of cotton on the Liverpool Cotton Exchange. Next comes the spinner, then the weaver, the bleacher, the dyer, the packer, and lastly, the exporter. In some companies two or three processes may be combined, such as spinning and weaving, or bleaching, dyeing and printing, but as a rule in Great Britain a different company enters in for each step in the process, and each step involves the use of bank credits.

Financed by Overdrafts

THE banker is therefore called upon to finance in turn the cotton broker, the spinner, the weaver, the bleacher or finisher, the dyer or printer, the packer, and finally the exporter of the cotton piece-goods. One bank may conceivably be called upon to finance each of the six or seven companies which handle the cotton from the time of its purchase in the bale until the finished product is ready for the merchant or exporter, although probably in practice different banks would be called upon for the different steps in the process, and usually the exporter is financed separately and in a different manner from the other companies.

The usual method of financing the cotton industry, as well as other industries in the United Kingdom, in the manufacturing operations of such companies is in the form of an overdraft. A loan or advanced is not made on the basis of a promissory note, as is so frequently the case in the United States, but by an arrangement between the bank and its customer, providing for the right of the latter to overdraw his account up to a certain limit.

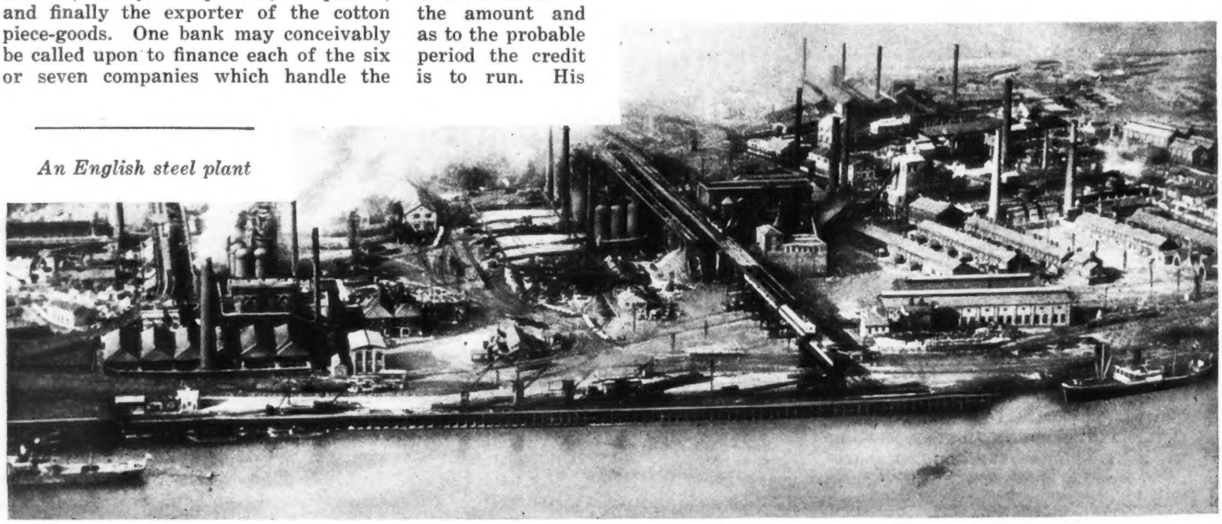
The cotton broker, for instance, goes to his banker with the statement that he has an order from a spinning concern for, say, 100 bales of American middling cotton. He arranges with his banker for an overdraft within certain definite limits both as to the amount and as to the probable period the credit is to run. His security may be stocks and shares, commodities, personal guaranties, or, more often, his own unsecured credit. Credit on personal character is still commonly given by British banks.

Banker Exercises Control

WITH the money thus secured from the bank the broker buys the 100 bales of cotton and notifies the cotton spinner that they are ready for delivery. The cotton spinner in turn goes to his bank for an advance in the form of a loan or an overdraft to enable him to pay the broker for the raw cotton. With the credit he receives he pays the broker, who then repays his own overdraft at the bank. The broker's overdraft may run for only a day or two if he buys spot cotton on the Liverpool Exchange. The spinner, however, needs money not only to finance the purchase of his raw materials, but also to pay wages during the spinning of the cotton. Therefore, his overdraft must, as a rule, be for a larger amount and for a longer period than the broker's. Similarly the weaver, the bleacher, dyer and packer must secure bank credit during the processing of the cotton. The cotton spinner may have to convince his banker that he has bona fide orders for the amount of cotton yarn which he has agreed to make, or the weaver that he has sufficient piece-goods orders to utilize the products of his looms and that his company is work-

(*Continued on page* 524)

An English steel plant



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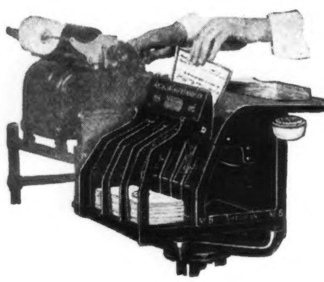

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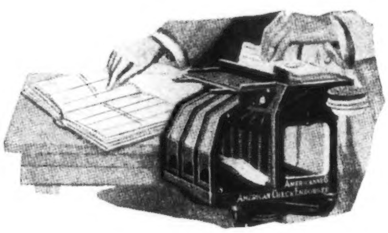

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War Debts and Home Markets

By T. N. CARVER
Professor of Political Economy, Harvard University

Prospect of Reduction in Foreign Demand for American Goods Resulting from Payment of Wartime Obligations of Allies to United States Scouted. Fallacy Seen in Argument that German Reparations Commodities Hurt Markets of Receiving Nations.

Free Gifts

A NATIONALLY known economist here attacks the frequently heard theory that war debts payments to the United States, necessarily financed by the sale of merchandise, will contract the American market for domestic products. His analysis of the effect of these transactions, on the analogy of the free gifts of German goods for reparations payments, is an important contribution to a continuing discussion which began when the war ended.

ELABORATE arguments have been written to show what might have been taken for granted, namely that war debts and reparations must ultimately be paid in goods. Equally elaborate arguments have been written to prove what is not true, namely that the acceptance of goods in payment of war debts and reparations must necessarily reduce the market for the home producer.

As one writer puts it, apropos of reparations, "The market of each home producer is reduced by just as much as his government takes German goods and services." This is a good example of what a great many have been writing and saying ever since the question of war debts and reparations has been before the world. It is based on an incomplete analysis of the problem, and can be shown to be untrue.

Two Large Facts

IN approaching this question, it is necessary to differentiate sharply between the question of the technique of international payments and the economic effects of those payments after they are once made. How Germany, for example, can transfer such a vast quantity of purchasing power to France is one question. How this transfer of purchasing power, once it is made, will affect French producers is another question. The former is a question of banking technique to be solved by international bankers. The latter is a question of value and price upon which an economic theorist may be permitted to say something.

In handling the question of the economic effects of an influx of German goods on French producers, it is necessary to begin with extremely simple illustrations, too simple perhaps to seem real. The reason for this simple procedure is that otherwise the problem will seem too complicated to admit of solution.

Let us consider first the case of France with respect to German reparations. We may assume without argument that she must accept a good many German goods in partial or complete payment of her claims. We shall reach false conclusions as to the result of this acceptance unless we keep two large facts in mind. The first is that the consuming power of the French people is not fixed and inelastic. It is on the other hand variable, elastic and capable of indefinite expansion. They could consume a great many more goods of various kinds than they are now consuming if they had the money to pay for them.

More Money to Spend

THE second large fact is that the reparation payments would give them more money to spend. If the French government should use the reparation money to pay its running expenses and reduce taxes accordingly, the people would save their tax money and have it to spend for other things. Suppose, for example, that the average taxpayer saves a hundred francs on his taxes. That will leave him a hundred francs to spend for other things, over and above what he would have had if taxes had not been remitted. Even though he spends the whole hundred francs for German products, he will have just as much money left with which to buy French products as he would have had if there had been no reparation payments.

This assumed reduction of taxes would operate on the general demand for goods essentially as an increase of income to all taxpayers. If it were possible, which it is not, for Germany to pay in actual money, and if this money were divided among the French people, they would all have that much extra spending money. In all probability that would result in increased buying. This increased buying would start an upward price movement. This, in turn, would make France a good country in which to sell goods. Goods would flow in and money would flow out. At the same time, Germany's supply of money would be depleted. Through higher taxes and other causes, the German people would have less money to spend. This would result in less buying and a downward trend of prices, making Germany a good country in which to buy goods, and a poor country in which to sell. This would cause goods to flow out and money to flow in.

Dislocation of Industries

WOULD this necessarily mean that the French people would buy fewer French products? It would not. It would merely mean that they would buy and consume more goods in the aggregate, increased quantities of German goods and the same quantity of non-German, including French products. It would virtually mean that Germany was supplying the French people with some extra spending money with which to buy German goods, leaving them to spend their own money for French and other non-German goods.

While there need be, under this arrangement, no reduction in the total demand for French goods, there would almost certainly be a considerable shifting of relative demands for different classes of French goods. This would result in a considerable dislocation of French industry, some industries suffering a shrinkage of demand and others gaining from an expansion of demand. Doubtless the losses would exceed the gains—at least such dislocations are generally feared rather than welcomed. But the dislocation of industries is one thing, a general shrinkage of demand is another thing. The shifting of demand from one class of goods to another may happen from a great variety of causes other than reparation payments. A change of fashion, for example, may shift the demand from cotton to silk or back again, but it is different from a general shrinkage of demand from reduced purchasing power.

(*Continued on page* 516)

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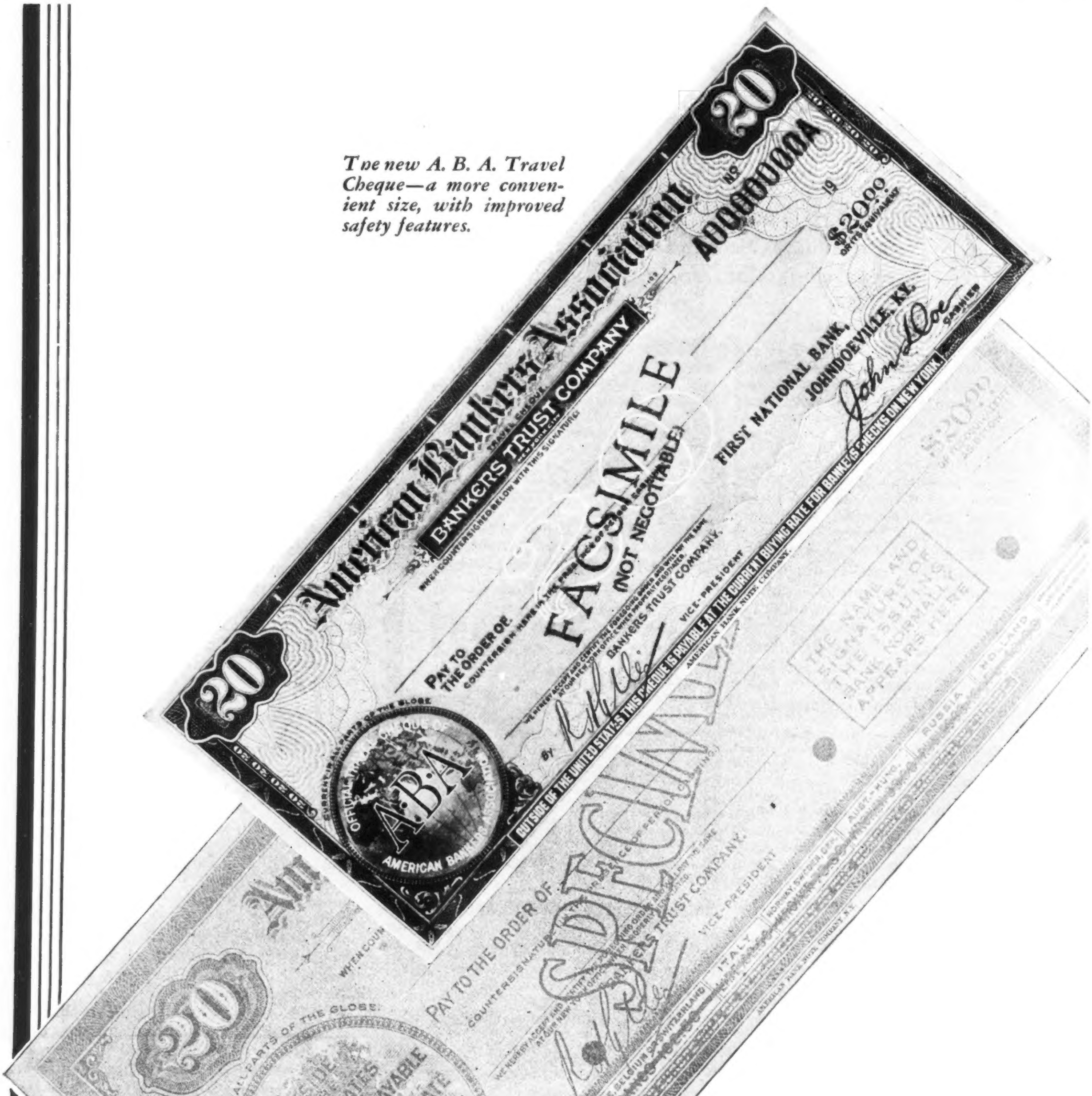

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The bank-note paper is of the highest grade, and the supply is rigidly controlled. It is chemically treated to frustrate alteration. Embedded in the pulp are irremovable multi-colored silk discs, called "planchettes."

The face of the Cheque is steel-engraved, framing an intricate design reproduced in four tints by a new process. The combination of complex engraving and the multicolor tint work never before used on a travel cheque reduces the possibility of counterfeit to a minimum.

The background of the Cheque is a pattern composed of minute repetitions of the Cheque's denomination in a fifth tint, green. All denominations of the new series will have this green background.

An immediate resemblance to the present Cheque is achieved by preserving the relative positions of the Signature, the Countersignature, the name of the Payee, the Certification, and the name of the Issuing Bank.

This last item is an exclusive feature of A. B. A. Cheques.

Plans are now under way to establish ready acceptance of the new form all over the world. The engraving work alone is an undertaking of many months—testimony in itself to its quality.

It will be possible to begin delivery March 15, 1930.

A·B·A CHEQUES

CERTIFIED

THE OFFICIAL TRAVEL CHEQUES OF THE AMERICAN BANKERS ASSOCIATION

New Bank Will Reflect the Genius of One Man

By LIONEL D. EDIE

Ample Justification for Bank for International Settlements in Role of World Central Bank for Central Banks of Different Nations. Expected to Develop Gradually from Mere Transfer Functions Until Wide Influence Is Exercised. Limitations Imperative.

THE real character of the Bank for International Settlements, proposed by the Young plan, is reasonably clear. It will start merely and solely as a transfer institution to handle reparation payments.

Many powerful interests will endeavor to prevent it from becoming more than that, but in spite of them it will gradually develop great influence in fields of pure banking that have nothing to do with reparations transfer. Whether the statutes say so or not, the International Bank will in fact be answerable to the governments of the various countries and so will very definitely be in politics. The United States will go in, privately if not officially, but most important of all effectively. The institution's earliest problems of a banking character will be prevention of sudden withdrawals of gold from a given country, acting as a consortium for granting of loans to backward countries, and averting a fall in the world price level expressed in gold.

Politics Looms

THESE conclusions rest on the assumption that the real future of the bank depends not only upon the technical phrase of statutes and by-laws but also upon the basic mental attitudes of the banking communities of New York, London, Paris, Berlin and other financial centers. To illustrate from our own history, the real nature of the Federal Reserve System with respect to the concentration of money in the New York market through brokers' loans is a sharp contradiction of the intentions of the phrase makers of Federal reserve law who thought they were de-centralizing the money market of the United States. The statutes are one thing; the real forces shaping the destiny of an institution are often quite another thing. To get at these real forces in the present instance, the writer has gone directly to leading money markets abroad and has discussed the issues at stake with their representative bankers and officials.

It is said that the bank will be non-political. The first Young report declared that the new "organization will be outside the field of political influence" and that "the functions of a director of the bank are incompatible with those involving national political responsibilities." Nevertheless, it would seem that the bank cannot possibly shake itself loose from political influences.

The dream of absolute freedom from the state reflects a sharp reaction, born of the sad experiences of war and post-war inflation, in the direction of independence of central banks. It was perfectly natural that such a reaction should appear. But the reaction has already gone to extremes, and there is now a tendency to swing back the other way. The Bank of England is the main fountain of the gospel of absolute independence, but even that institution is already in the shadow of Labor Party investigation with a prospect of some degree of political control. In other leading countries, public opinion is averse to extreme independence of the central bank. The reaction is now toward more social control rather than less and the new international bank doubtless must come into line with this tendency.

To grasp the situation correctly, we must go back to the idea which originally inspired the Bank for International Settlements. Germany insisted upon freeing the whole reparations question from political interference. Specifically, this meant evacuation of the Rhine and elimination of the Agent General for Reparations Payments. It was collection and transfer of reparations which was to be taken out of politics. When the Young conference superimposed a general bank upon a reparations bank, they thought to exempt both phases of the bank from responsibility to governments. This latter step will certainly not be tolerated by the leading European countries.

Sharply Resentful

HOWEVER, this does not mean that the bank will be directly tied up with the League of Nations. Doubtless there are many interests which would like to see such a tie-up, but the central banks will resist it to the utmost.

In a very real sense, the proposed institution is already deeply involved in politics. Two instances may be cited: one, the problem of representation of small countries; the other, the problem of the location of the bank.

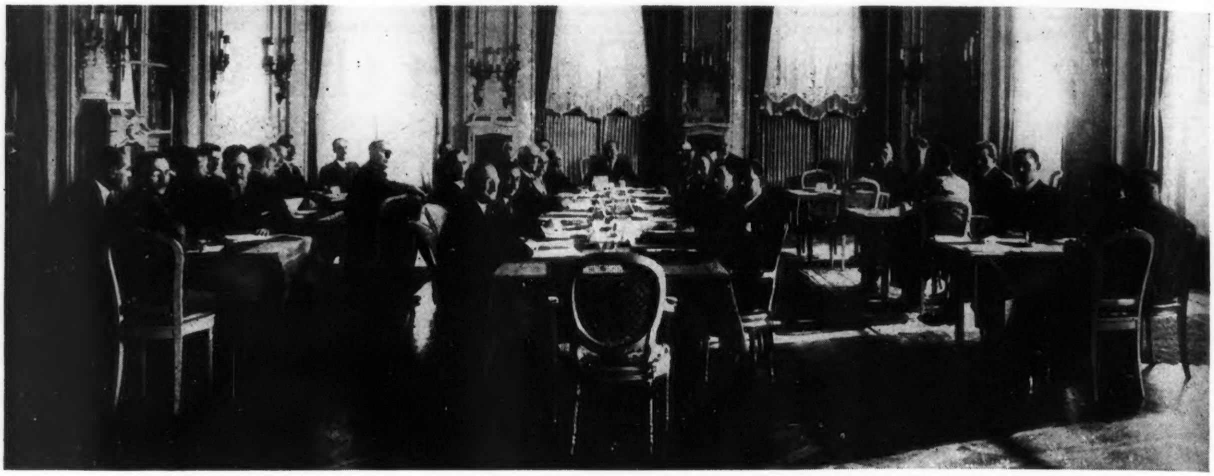
With regard to the first problem: There are some twenty-five small countries which are entitled to only nine representatives as against seven countries of the original Young conference which are entitled to fourteen to sixteen representatives. This insures a majority for any six of the latter group of countries which hang together, or for any five of the latter group plus two of the former group. Belgium is always assured a seat in the inner group although that country is not as important in the international money market as Holland. In general, the smaller countries are sharply resentful of the practical monopoly of control reserved to themselves by the inner group of seven countries.

Only Half a Central Bank

WITH regard to the location of the bank, one may observe that the problem is so saturated with political questions that the Young conference merely shelved it for some future conference to wrestle with. England wants the bank located in London for obvious reasons. France wants it in Brussels because the influence of French finance is dominant there. Germany would like to see it in Amsterdam because the influence of German finance is of great importance there. On strictly economic merits, the bank should be located in an outstanding world money market, such as London. However, the countries of Europe have been reluctant to put the bank in London feeling that it would be too great a political concession.

The proper political status of the bank would be one of acknowledged responsibility to the governments of the respective countries. Such responsibility should include at the minimum the obligation to make periodic reports of financial status and banking policy. This step would dispel the notion that the new institution is an extra-legal superbank. It would also leave without justification the notion that the new bank is a conspiracy on the part of certain bankers to set up a banking organization which could do pretty much what it pleased with the feeling that the state could not touch it. This notion undoubtedly prevails among many well informed and soberminded people at the present moment. The first draft went too far in the direction of absolute independence.

Although the new institution is formally called a central bank, in fact it is



Organization meeting of the International Bank in session at Baden-Baden, Germany

distinctly less than a true central bank. First, it lacks the power of note issue. This power is a salient characteristic of every existing national central bank. It conveys the obligation to regulate the whole monetary structure of the country. A central bank without this power is only half a central bank. Since there is no international form of note issue, the new Bank for International Settlements is completely devoid of this important power.

On Sufferance

TO cite another illustration, the new institution lacks full powers of action in the open market. It possesses no single central market with which it is integrally linked, but must reach out to a score of money markets of greater or less importance. It can never operate in one of these markets if the local central bank objects. Hence, every basic move in the open market is bound to be at the sufferance of one or more nationalistic bodies. This strips the international bank of that direct and sure control of the open market which is a primary trait of the leading national central banks. It makes supremely difficult a firm and confident leadership in the world money markets.

Obviously, therefore, the new bank is lacking in some of the essential attributes of a vigorous central institution. It lacks power to issue notes, lacks authority to regulate the currency, and lacks supremacy in the money market.

In spite of these limitations, the new bank should enter upon a record of positive and constructive achievement. In my judgment the most important single determining factor in what this record shall be is the personality of the individual who is chosen president or governor of the bank. The career of the new organization will reflect the genius of some one man. This ought to be obvious to any one who surveys the contemporary history of the leading national central banks. It is the man who makes the institution.

This prospect is not without its alarming side. The continental view is especially skeptical, because continental central banks typically set up a Direktorium of bank administrators. This Direktorium is not equivalent to a board of directors in this country but is a group of people who have grown up in the bank and have attained long experience as practical executives. The Direktorium may serve to hold down an aggressive governor and prevent the bank from becoming too much of a one-man institution.

Without Undue Mystery

THE continental bankers are too distrustful of each other to want to see the governor picked from a European state. This distrust has led to the suggestion that the governor be an American. However, faced with this proposal, the protest arises in many quarters that Wall Street will swallow the bank. These several reactions have not fully crystallized, but the most probable development is to tack a European Direktorium onto the bank, and to select a non-European governor.

The new bank has been characterized by one of the Governors as "a central bankers' club." This phrase is significant. It implies that the most hopeful phase of the program is a regular convocation of central bank heads to talk over some common problems. Instead of the Governor of the New York Federal Reserve Bank having to make mysterious trips to the Riviera or the Governor of the Bank of England having to make mysterious trips to lower Manhattan, the fraternity of governors and their alter-egos can convene systematically and without undue mystery. Out of these conversations will grow an unwritten constitution by the slow process of experience and necessity. Out of a central bankers' club will evolve a real new force.

The process is often described as one of "cooperation of central banks." Cooperation is a vague word until we define its concrete lines of development. What specifically will cooperation seek to accomplish?

First, it will attempt to play the rôle formerly played by a loose federation of central banks in granting stabilization loans to countries resuming the gold standard. Rumania, Poland, Austria and numerous other countries have hitherto been the recipients of such loans. In the future, China for instance, may be an applicant for similar aid.

The Competitive Aspect

SECOND, cooperation will seek to prevent sudden withdrawal of funds from a given national market. This implies some degree of stabilization of exchange rates within the gold points as means toward the stated end. The attempt will be made to prevent disturbing drains of gold from a particular market. This attempt is the more important now that the volume of international liquid funds has become so great. The very mobility of these gigantic balances is dangerous because their sudden transference from point to point accentuates financial strain and may easily provoke a financial convulsion. The movement of these balances requires centralized control if it is not to lead to grave embarrassment. Such control the new cooperation is designed to bring about.

Third, cooperation will mean considerable attention to the problem of stabilizing the world price level. Both Owen Young and Josiah Stamp are known to have been fully conscious of the importance of stability of the world purchasing power of gold. Such stability is more remote than some other objectives because it requires much preliminary research and economic study. However, definite progress toward the ultimate end should be one of the early questions on the agenda of the Bank.

Fourth, it has been proposed that the new bank grant export credits to Germany, make loans to retarded countries, and in general stimulate world markets. Unhesitatingly we say that this part of the original program over-reached itself. At this point some of the language of the report of the Young conference sounds

(*Continued on page* 531)

As Bankers See Chain Banking

Symposium of Group Bankers Indicates Chain System is Still In Experimental Stage. Operators in Various States Express Their Views and Describe Methods of Operation. Factors for and Against Branch and Chain Banking Outlined and Weighed.

GROUP and chain banking in this country is still very much in the experimental stage notwithstanding the existence of some 273 chains, involving 1858 banks and over $13,275,000,000 in resources. The idea that chain banking is to be regarded as an experiment is reflected in the views of bankers connected with chain systems in some of the states.

The extent of chain banking in the United States only became known early in October. While it was recognized that a steady expansion of group and chain banking was going on, nothing but estimates or guesses were available of the number of banks involved or the amount of their resources. The study of group and chain banking made by the Economic Policy Commission of the American Bankers Association, and summarized in the October issue of the JOURNAL by its chairman, R. S. Hecht, president of the Hibernia Bank and Trust Company, of New Orleans, was the first factual report on the subject.

A Symposium

IN the conduct of its study the Commission received expressions from bankers connected with chains in the various states. Some of their views are presented here as a symposium of what chain bankers think of chain banking, beginning with the manager of a securities company in California, who said:

"This company was organized to act as a holding company for three banks, and also as an investment company, handling various classes of securities. It was prompted partially by the fact that building and loan associations were cutting into our savings deposits, on which we are paying 4 per cent per annum, and this company affords us the right to sell preferred stock paying 6 per cent per annum, thus enabling us to offer our clients the same rate that building and loan associations are offering. We have call features to this stock which will protect us in case of the general lowering of interest rates. Under this plan we are also able to loan along the same lines of building and loan associations.

More Scientific

"WE do not expect to extend our operations outside of the county in which we are located, and are very much pleased with the set-up as far as we have gone. We believe with the small chain of banks closely located, with a holding or investment company, that we can give a service superior to the state-wide or nation-wide banking organizations. We are having no difficulty in retaining our business in face of keen competition from branch banks. In fact, our business is growing. Our efficiency and credit systems are improving, for we find that the methods of branch banks are much more scientific than the former loosely run independent banks. This enables us to improve our credit system and methods of transacting business.

"This company owns all of the stock of the three banks, except a few shares to qualify directors, and these shares are held in trust. I believe if you will make a close investigation of the branch banking system versus the present independent or locally grouped banks in California, where state-wide branch banking has become so general, that you will find that the public sentiment is strongly in favor of the independent or small group banks. We hear on every side, even from men who deal with branch banking institutions, expressions of fear as to the final outcome if the banking resources of the country are allowed to be controlled by a set of large banks. Well-managed independent banks in California, and most all of those that are left, I believe, are well managed, are in a position to be more conservative than they ever have been, and at the same time give a personal service and use discretionary judgment where it is due, and this cannot help but result in favorable public opinion and increase of business. Personally, I hope that we will always have the well-managed, independent or small group banks along with the larger branch banks."

An Element of Danger

A FLORIDA chain bank executive states:

"I am frank to confess that where our officers and directors, and particularly our active officers and directors, are officers and directors of other banks in this territory we should have sufficient interest therein to be able to control their policies and operations. The reason for this is that if any of them get in trouble it reflects upon this bank. If I had my way about it, none of our officers and directors would be officers and directors of any other banks in this vicinity unless we controlled them, or unless the management of such banks strictly adhered to our ideas and policies of sound banking, and such banks would agree to have duly accredited representatives of this institution examine their affairs periodically. There is a strong element of danger in either group or chain banking."

Branch Banking Preferred

BRANCH banking was preferred to chain banking by the president of a national bank controlling a chain in Georgia. He said:

"We do not favor this system of acquiring banks, and believe that the coming session of Congress should give careful consideration to the advisability of permitting branch banking on a proper scale."

Each On Its Own Legs

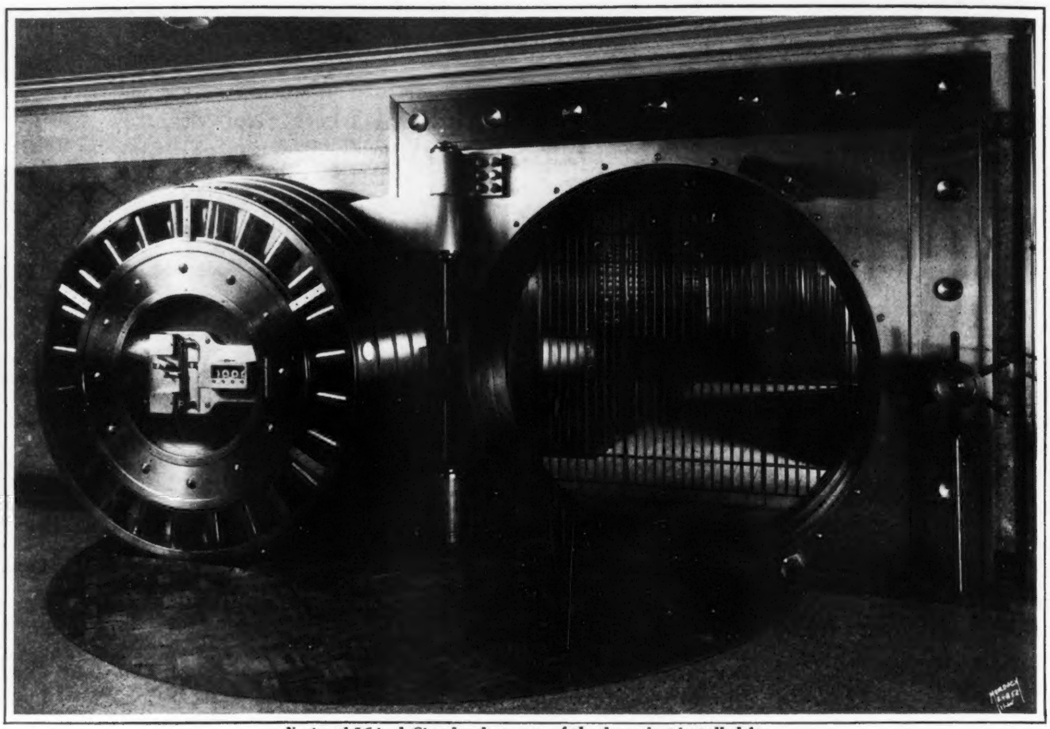
EACH bank stands on its own legs in one of the individually controlled chains in Iowa, of which the following report was received:

"Each bank is made to stand on its own legs and not allowed to lean upon the Sioux City Bank. All of the commercial paper and other investments carried by the country banks are furnished by the Sioux City Bank. Instructions to managing officers are sent from the Sioux City office by bulletins and letters. A field auditor is maintained with one assistant. These men carefully examine the banks periodically, spending on the average about two weeks at each bank for the examination. Each bank makes daily, weekly and annual reports to the Sioux City office, for which regular forms are provided. The daily report is a short form and shows only changes in amount of deposits, reserves, and loans and discounts. Explanation is required if important changes are reflected in the daily report. The weekly report contains considerable information. First, general balances; second, all overdrafts, including names and amounts; third, list of all loans made during the week: (a) name; (b) date and maturity; (c) amount; (d) rate of interest; (e) total line; (f) amount secured; (g) how secured; (h) whether extension, new note, or renewal. This report also lists all loans thirty days or more past due, explaining why past due and giving recommendations of the managing officer. Also on this report are cash items, expense items paid, and cash errors during the week. The report is made at the close of business on Saturday of each week."

Branch banking is considered dangerous by the operator of an individually controlled chain in Kansas, who writes:

"I am interested to some extent in five

(*Continued on page* 485)



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As Bankers See Chain Banking

(*Continued from page* 482)

other banks. Three of them have been practically under my management. It might be practical and satisfactory if I were a younger man, but I have served forty years in the banking business and have now decided to dispose of my outside interests. Taking them all together, financially they have been a success, but during the strenuous periods they caused considerable bother and trouble. In many ways they are beneficial to our larger bank, and in other ways a detriment—so I hardly know what to tell you, but most men with whom I have talked on this subject have had about the same experience. If it was on a larger scale, and you had a good many of the banks and had them systematized, I believe it would be more of a success, yet I feel 'branch banking' is dangerous to any country."

Vitally Interested

THE relationship between the stock being held in the territory served is emphasized by the head of one of the large holding companies in Minnesota in a comprehensive statement. He said:

"Our entire plan of operation has been formulated with the definite intention of retaining in the local community the strongest possible local interest in and control over the affairs of their bank, and the organization of the central office is being set up with two very definite purposes in view. First, the association of these banks will result in examination and supervision and the bringing to bear of trained judgment in the operation of the individual units, which ought to enable them to serve their local communities better than ever before, and ought largely to eliminate the possibilities of undue losses and mistakes such as have occurred in the past and have caused the closing of a number of our Northwest banks.

Seasonal Needs

"SECOND, through the distribution of the holding company stock in small units over the Ninth Federal Reserve district, it offers an opportunity for the people of the district to become financially interested in the banks with whom they are dealing in a larger way than ever before, and the stock will be so widely spread, and held by so many people, that it in effect leaves the ownership and management of these institutions primarily in the hands of the people who are most vitally concerned with their management and prosperity. It is, of course, always true that officials of a corporation of this kind are permitted to hold their jobs by the stockholders just as long as they satisfactorily conduct the business, but the stockholders always have the power to replace them in case of their failure to conduct affairs satisfactorily.

"One of the strongest arguments for the grouping of banks over such a widespread and diverse territory as the Ninth Federal Reserve district is the increased strength inherent to all through the greater diversification of industry served by the group. Seasonal needs of the many divisions of commerce vary greatly, but each division has a period of peak load in financing requirements. Agriculture, for instance, and this is particularly true in the small grains sections, requires heavy advances during the harvesting and shipping season. These peaks sometimes prove a heavy load on the resources of unit banks in communities of the single industry type. In the same way that diversification of crops brings prosperity and a year-round income to the farming territory, eliminating the hazard of a single source of income, diversification of banking over such a great territory as the Ninth Federal Reserve district will give a sounder foundation to the entire financial structure.

"The facts are that any sound-thinking person can readily understand that the association of a group of institutions engaged in the banking business in the Ninth Federal Reserve district could not be undertaken with any idea on the part of those handling the affairs of curtailing credit or moving the deposits of one section into another, to the detriment of the local community. Were this corporation, or any other, to concentrate in the Twin Cities, Chicago or New York funds needed for constructive purposes in local communities, it would defeat the entire purpose of the group association. It is our intention—and we consider it our obligation—to supervise the administration of the units in our group in a manner that will materially increase their usefulness to the communities they serve.

"The promoters of this plan are primarily interested in the prosperity of the Ninth Federal Reserve district, and the organization of the corporation is based upon what is believed to be a sound plan for providing the most intelligent and forceful means of taking care of the banking needs and developing and promoting the business of this territory in which we are interested. It should always be borne in mind that by confining the list of owners of stock in this corporation, so far as practicable, to the Ninth Federal Reserve district, we are making it possible for those whose business brings about the prosperity of the banks making up this group to share in whatever prosperity it enjoys."

For Safer Banking

A NEBRASKA banker writes: "The banks' principal gain possibly is in the management and supervision that is perhaps a little better than where similar banks in the smaller towns are operated by bankers of possibly less experience. The small town banker sooner or later must adopt city bankers' viewpoints and policies, but unless they get connected through a chain with some of the larger banks, this education is going to come slowly. Under present conditions of combinations and mergers it is my opinion that the small banker is either doomed or they will have to form their own combinations for strength and better banking. I can see how a group of banks in a county could organize a holding company and be governed by a central management in the county seat and reduce the cashiers in the smaller town to first-class clerks, which possibly would make for safer banking, but also result in less benefit for their respective communities."

An Experiment

THE president of a trust company in Texas, in control of other banks, describes what he calls an experiment as follows:

"The securities corporation owns 51 per cent or better of the stock of these small banks. With us it is an experiment. These are small agricultural banks, all started in the spring of the present year. Small agricultural banks in the black land section of this state have, generally, been hard hit and many failures have come about, I think, more from causes of mismanagement and incorrect policies than from economic causes. Our thought was to establish some seven to ten of these small banks in towns where, in most instances, they had failed. In some instances all the banks in the respective towns had failed. In other cases one bank was left. We then put in a plan of daily reports to us and a plan of monthly examination and supervision by our own examiner to see if the economic need for small banks in small towns had passed away with the new day of things. We are studying the situation and operating it in this small test way in order to see if they can be operated profitably and successfully, and fill an economic need which was apparently not possible under individual small-town agricultural management. It will take us, I think, a year, or perhaps a year and a half, of constant supervision and study to tell very much about the results. It bears the earmarks of filling a need in those respective communities, all highly developed agricultural communities, and it looks like it is going to turn out to be a profitable venture as well."

Proper Diversification

THE extension of group or branch banking within each Federal Reserve district is favored by the secretary of a securities corporation in Utah, who states:

(*Continued on page* 532)

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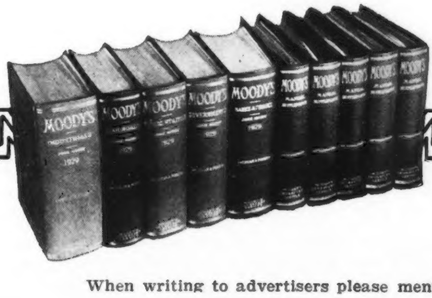


Latin America Waits for Money

By EMMET HARRIS

Financing Hurt by Dull Bond Market in this Country. Southern Republics Find Similar Conditions in European Money Centers. Municipal Improvement Programs Held Up Until Investors Again Seek Long Term Obligations. Purchases Retarded.

A Buyer's Market

HIGH call money's depressing effect upon the bond market and the general public interest in stocks have had a direct reaction upon the fiscal programs of Latin American governments and municipalities. It is pointed out here that the republics to the south are now a buyer's market for investments, a situation which may be reversed if the rate situation changes. Meanwhile the United States is in a better position to tighten the links of business with South America.

THE heavy market for bonds in this country is being reflected particularly in municipal and governmental financing in Latin America. Drawn from their usual sources of credit in Europe by the war, these municipalities and governments to the south have come to depend upon New York as the source of money with which to finance improvements and carry out new governmental projects.

For the past year and a half, however, there has been no market to speak of for bonds in New York. The result has been a policy of "watchful waiting" on the part of many finance ministers and municipal authorities, while new projects have been postponed and much needed refinancing, in many cases, has had to be held over until more propitious times.

Of course, when the time comes in this country that bonds are again in favor with the investing public, it can be assumed that conditions in all money markets will be more or less similar and investors in England, France, Holland and the Scandanavian countries will be simultaneously again interested in attractive loan projects abroad. Latin American securities, under such circumstances will have a distinct sellers' market.

Under the Aegis

HOWEVER, that time is not here yet and the most far-seeing are not able to say just when it will come. In the meantime it is averred that first class opportunities, which because of their very character do not lend themselves to stock financing, are going begging in the Latin American field.

This situation has carried with it some rather far-reaching reactions. Curtailment of Latin American government programs for port development, road construction, and railroad building, and of municipal programs for street paving, water works and lighting plants has had its repercussions upon the whole economic trend of many communities. Employment in such projects has necessarily been cut down as the funds for their further development have not become available and this has reduced purchasing power, with the resulting array of economic effects which naturally follow in the wake of such events.

The facts are that Latin America has been growing at a tremendous rate under the ægis of American capital and with the supply of that capital suddenly cut off, not only has the growth been retarded but all of the demands growing out of that development have received a set-back.

Results Benefit Business

IT is an accepted fact that even though our foreign loans contain no "tying in" clause obligating the borrowers to purchase equipment and materials of American manufacture out of the proceeds of any given loan, the results are often directly beneficial to American business. American banks acting as fiscal agents may not control the actual expenditure of funds raised in this market but they do influence the borrowing governments and municipalities in many ways toward the greater use of American equipment.

The very nature of the projects themselves has, moreover, a most potent bearing in this direction. Our own road building development has brought into use in this country new methods and new ideas not found in any other country in the world. The problems of conquering great distances are foreign to European engineers, yet these are the problems confronting Latin American countries today and they naturally look for their solution toward the United States.

In one or two fields American initiative has continued even during the period of a dull bond market. In the acquisition and improvement of power plants and the building and extension of telephone facilities the work has been carried on in spite of adverse financing conditions in the United States and Europe. It is claimed that the increased sales of electrical and telephone equipment has more than paid for the expense of acquiring power plants and the building and wiring telephone systems.

Too New a Phenomenon

IF the dullness in our bond market continues, some such device may be created for the development of other much needed public improvements in the Latin American field. At present, the unpopularity of the bond here is too new a phenomenon to cause any serious consideration of such steps.

The need of financial assistance is daily becoming more and more insistent from the Pampas to the Orinoco. Immigrants from Europe are pouring into Brazil and Argentina each year and sweeping farther and farther back into virgin and uncultivated lands. They must have access to the ports and the ports must be made to accommodate the commerce resulting from their increased productivity. This means more roads and railroads, deeper harbors, and better wharves. The money for these things must come from abroad and the United States with its billion dollars of surplus savings each year, normally seeking a foreign outlet is the logical place to look for it.

There is, of course, the alternative of placing funds in the hands of European bankers who in turn would guarantee a nominal return, investing in turn in these projects of much higher yield. Such a course is openly advocated by those who are skeptical of the credit of some Latin American governmental and municipal entities. Our experience in the Latin American investment field in the past, however, have not warranted the necessity of taking such measures to protect capital. The record of most of the Latin American governments and municipalities is good. The few exceptions are notable. They are not the results of basically unsound conditions but rather

(*Continued on page* 535)

Note the complex decorative treatment of the ceiling in this Chicago office. Such designs do not interfere in any way with the efficiency of J-M Sanacoustic Tiles.

In this room of the Chicago Title and Trust Co. many workers carry on their tasks without disturbing one another because of the ceiling of J-M Sanacoustic Tiles.

Savings Show a Recession

By W. ESPEY ALBIG
Deputy Manager, American Bankers Association

Savings Deposits and Depositors Both Show Shrinkage During Year Despite Generally Favorable Business Conditions. Lure of Profits from Security Investments Believed Chief Cause. New England and Pacific States Only Areas Reporting Gains.

THE greatest change of front, during more than a decade, in individual deposits in banks developed during the year ending with June 30, 1929. On that date individual deposits in banks and trust companies in continental United States amounted to $50,788,542,000, a decrease of $410,722,000 from the figure of a year before. These totals are exclusive of Federal, state, municipal and interbank deposits. This loss in individual deposits was shared between savings deposits and demand deposits, the decrease being $195,305,000 in savings deposits and $215,417,000 in demand deposits.

A year ago in connection with savings deposits it was stated in the JOURNAL: "The year closing June 30, 1928, registered over the previous year the largest gain in savings deposits in banks and trust companies of continental United States ever recorded in the history of this country." What a difference one year makes! From a gain of more than $2,250,000,000 to a loss of almost $200,000,000.

This loss comes, too, in a year when industrial production, month for month, was much higher than during the preceding year, when production of manufactures and the production of minerals were at a high point, when factory payrolls were considerably greater than during the record year of 1919.

Demand Deposits Lose Most

IN the whole gamut of production, employment and trade advances were made over the preceding year except in building contracts. Here the decrease over the preceding year was so slight that no material effect on the savings business should be observable.

In the farm areas the improvement noted last year has not receded, and the live stock industry in all its branches has been prosperous. The whole industry has been heartened by the recovery of the cattle market which had suffered an acute depression for a number of years.

In the face of this national condition there may be those who will say that savings depositors have simply, for the time being, changed to another form of investing. The fact remains that less than half the loss in individual deposits comes through lack of savings deposits. The greater part of the loss comes from demand deposits. From 1918 to 1925 the increase in individual deposits averaged $3,000,000,000 annually. Since that date until 1928 the annual increase has averaged $2,000,000,000. The past year registered a loss.

Fewer Depositors

TEN years ago individual deposits amounted, in round numbers, to $28,500,000,000, of which 46 per cent was savings and 54 per cent was demand deposits. As the volume of individual deposits has grown, the percentage taken by savings deposits has increased until last year the volume stood at $51,000,000,000 with 44 per cent demand and 56 per cent savings. Since from 1915 until this year the volume of individual deposits increased each year, it might reasonably be expected that there would be an increase during the year 1928-29 over the year previous. If the average since 1925 were maintained then the increase would be in the neighborhood of $2,000,000,000.

"What has become of the expected $2,000,000,000 increase in individual deposits?" is a pertinent inquiry. In the preceding year all the gain in individual deposits was absorbed by savings deposits. This year there were none to absorb.

For the first time in more than a decade individual deposits showed a loss and for the first time since 1910, when these computations were initiated, savings deposits showed a decrease over the preceding year. The loss in savings deposits is reflected also in the loss of savings depositors. The year shows a total of 52,656,389 depositors, against 53,188,348 last year, a loss of 531,959.

Honor Goes to New England

NEW ENGLAND, true to her traditions, turned in from every state, except one—Rhode Island—an increase in savings over last year. This group and the Pacific group were the two out of a total of six which showed an increase. Of the two, New England led with a gain of $88,823,000, as compared with a gain of $340,025,000 the preceding year.

Last year Maine gained $17 per inhabitant, this year $3; New Hampshire fell from a gain of $30 last year to $19 this year; Vermont changed from $39 to $14; Massachusetts, which usually leads New England in gains, went from $43 to $14. Rhode Island went to the bottom of the New England list by changing from a gain of $16 to a decrease of $12 per inhabitant. Connecticut, with its wealth of technical manufacturing, changed last year's gain of $31 to $14.

The gain for all New England was $10 per inhabitant, which is small enough when it is remebered that at the beginning of the year each inhabitant had an average savings account of $560 and the interest rate on savings in that section is rarely in any area below four per cent. In every state of New England the number of savings depositors increased, being 152,984 more than during the preceding year. This honor goes to New England only this year since in no other group did every state increase the number of its depositors.

Middle Atlantic Loses

THIS group usually turns in a tremendous gain in savings. Last year it amounted to $36 per inhabitant or 9.1 per cent over the previous year. This year it shows a loss of $48,612,000 or 5/10 of one per cent compared with the 9.1 per cent gain of last year. New Jersey, Pennsylvania and Maryland showed losses. New York, the District of Columbia and Delaware showed gains, but even the gain of $64,000,000 in New York was overcome by the losses to the West and South.

In ordinary years New York shows the greatest savings gain per inhabitant in the United States or else is nosed out only by Massachusetts. Last year the gain over the preceding year was $49. This year it is $6, although the average deposit per inhabitant at the beginning of the year was $616.

New Jersey's loss is $24 per inhabitant, Pennsylvania's $5, Maryland's $6, New York and the District of Columbia gained $4 to an inhabitant and Delaware $7. The losses for the year, however, were greater than the gains so that at the end of the year the Middle Atlantic States showed a recession of $2 per inhabitant, which in effect means that the almost $12,000,000,000 in savings deposits in banks at the beginning of the year were reduced and that the interest on this amount was withdrawn from the banks.

In New York State savings depositors increased by more than half a million

and increases were also registered in New Jersey, the District of Columbia and Delaware. Pennsylvania suffered a loss of more than 50,000 depositors and Maryland followed with a loss of over 33,000. The decrease in deposits in New Jersey did not prevent an increase of over 46,000 depositors in that state. This large gain together with that of New York state enabled the Middle Atlantic group, although suffering a loss of more than $48,000,000 in deposits, to show a gain of more than 528,000 in depositors.

Solid South Broken

OF the thirteen Southern States two only, Texas and Arkansas, showed a gain in savings this year. Florida leads the procession in losses with a recession in excess of $25,000,000. North Carolina, which last year showed a gain of $3 over the preceding year, this year has a recession of $4 per inhabitant, which amounts to a loss of above $12,000,000 for that state. Georgia with a $5 gain last year turns in a $3 loss this year.

The slight gain in Texas of about $5,500,000 and the less than one-half million dollar increase in Arkansas were unable to overcome the losses in the other states, with the result that the savings in the Southern States are less by $88,000,000 than they were a year ago.

Although Texas and Arkansas each showed a gain in deposits they lost in the number of depositors, Texas losing in excess of 32,000 and Arkansas slightly more than 3500. Mississippi and Kentucky alone of all the states in the south showed a gain in the number of depositors, Kentucky gaining in excess of 88,000 and Mississippi about 13,500.

Virginia, which last year had the greatest number of savings depositors of any southern state, sustained a loss of almost 90,000 followed by Florida with 48,000, North Carolina with 38,000, Texas with 32,000, West Virginia with 34,000, Tennessee with 20,000, Georgia and Alabama with 19,000, down to Arkansas which lost about 3500; the total loss in depositors for the Southern States being in excess of 223,000.

East Central States Down

OHIO, Illinois and Michigan ordinarily are banner states for savings. At the beginning of the year Ohio had a per inhabitant savings of $221, Illinois $218, Michigan $254 and their gains for the preceding year had been $31, $18 and $10, respectively. Of this great triumvirate, this year only Michigan showed a gain and that of $4 per inhabitant which for the state is an increase in excess of $19,000,000. Wisconsin, the state of extreme diversification, is the only other state in the East Central group showing a gain.

Ohio came within $3,000 of showing a loss as great as that of the entire Southern group, or $13 per Ohioan inhabitant. Illinois with a loss in excess of $77,000,000 was next in line, followed by Missouri with $30,000,000, Minnesota with $15,000,000, Iowa with $7,000,000, and Indiana ended the procession with a slight loss, $171,000. The total recession during the year in the East Central States amounted to $193,888,000.

Iowa reported 775,460 savings depositors this year, which is a material reduction. A substantial loss was suffered in Minnesota, that of 124,000, followed in order by Indiana with 79,000, Missouri with 73,000 and Ohio with 72,000. The gain of 95,000 in Illinois and 11,500 in Michigan indicates that despite the unfavorable turn of the year in volume of deposits, the savings doctrine is making headway, at least, in these two states.

West Central States Off

SOME of the influences which served to reduce savings in the eastern part of the United States lost force when they reached the northwest and the west. Of the seven states comprising the West Central group, five showed a gain in savings deposits, although the increase was slight, the greatest being that of Oklahoma with over $7,500,000, followed by Montana with over $3,000,-

(Continued on page 533)

SUMMARY OF SAVINGS DEPOSITS AND DEPOSITORS IN THE BANKS AND TRUST COMPANIES OF CONTINENTAL UNITED STATES COMPILED FROM REPORTS RECEIVED BY THE SAVINGS BANK DIVISION, AMERICAN BANKERS ASSOCIATION (June 29, 1929)

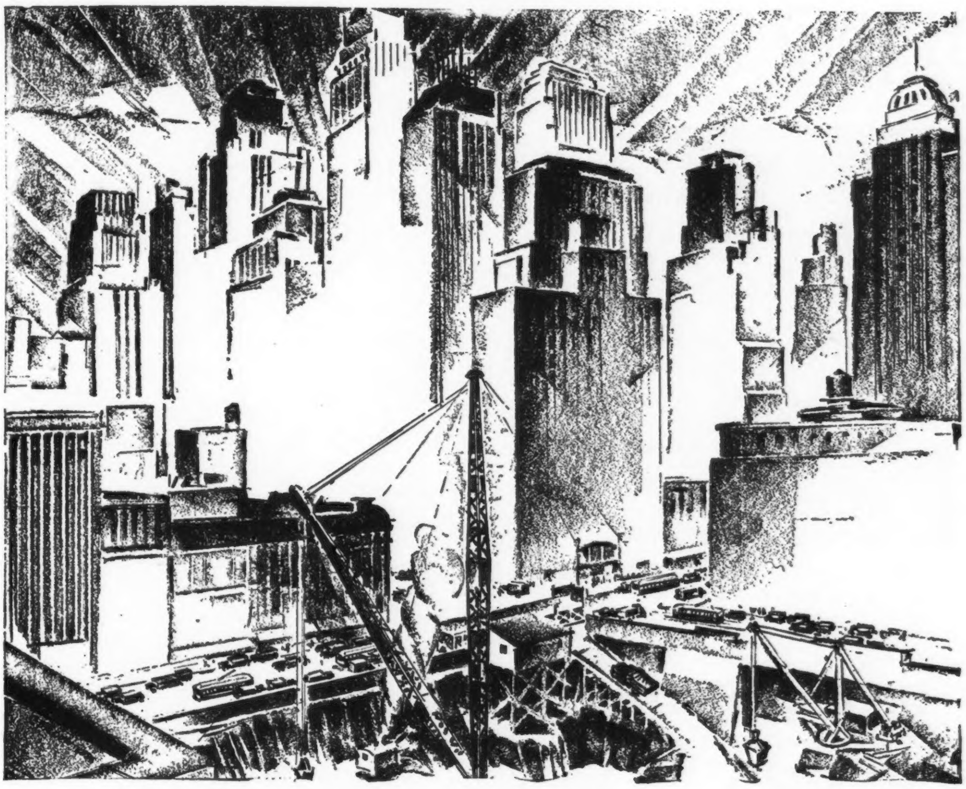
States	Savings, 1929	(1) Per Inhab., Savings, 1929	Gain in Savings per Inhab., 1929 Over 1928	Per Cent Gain in Savings per Inhab., 1929 Over 1928	Per Cent Gain in Savings per Inhab., 1929 Over 1919	Per Cent Gain in Savings per Inhab., 1929 Over 1914	Number of Savings Depositors
Maine	$315,903	$397	$3	0.1	64.7	38.3	666,982
New Hampshire	236,550	519	19	3.8	69.6	104.3	385,702
Vermont	211,141	598	14	2.4	72.8	114.3	374,702
Massachusetts	2,710,835	632	14	2.3	87.5	140.3	4,198,045
Rhode Island	360,040	503	—12	— 2.3	57.2	128.2	404,784
Connecticut	885,885	531	14	2.7	71.3	99.6	1,548,288
New England States	**4,720,354**	**570**	**10**	**1.8**	**78.7**	**120.1**	**7,578,503**
New York	7,183,457	622	6	1.0	162.4	181.4	9,597,705
New Jersey	1,301,760	341	—24	— 6.6	125.8	207.2	2,794,485
Pennsylvania	2,725,797	277	— 5	— 1.8	100.7	207.8	6,375,507
District of Columbia	98,419	178	4	3.3	93.5	408.6	335,732
Delaware	62,835	258	7	2.8	89.7	218.5	127,822
Maryland	490,474	304	— 6	— 1.9	79.9	171.4	952,128
Middle Atlantic States	**11,862,742**	**429**	**— 2**	**— 0.5**	**133.2**	**187.9**	**20,183,379**
Virginia	247,265	96	— 4	— 4.0	77.8	242.9	523,336*
West Virginia	163,972	95	— 3	— 3.1	58.3	93.9	426,001
North Carolina	155,338	53	— 4	— 7.0	76.7	278.6	450,448
South Carolina	86,885	47	— 5	— 9.6	6.8	135.0	195,465*
Georgia	146,502	46	— 3	— 6.1	58.6	228.6	433,562
Florida	127,030	90	—18	—16.7	87.5	221.4	299,393
Alabama	113,105	44	— 1	— 2.2	120.0	300.0	301,321*
Mississippi	99,650	56	— 1	— 1.8	133.3	600.0	145,420
Louisiana	130,483	67	— 2	— 2.9	81.1	191.3	391,417*
Texas	218,956	40	1	2.6	166.7	400.0	363,126
Arkansas	75,756	39	..	..	225.0	550.0	150,136
Kentucky	218,161	86	— 1	— 1.1	168.8	377.8	482,966
Tennessee (2)	176,021	70	— 3	— 4.1	105.9	337.5	151,610*
Southern States	**1,959,124**	**60**	**— 3**	**— 4.8**	**93.5**	**252.9**	**4,314,201**
Ohio	1,421,299	208	—13	— 5.9	70.5	150.1	3,047,855
Indiana	409,415	129	..	..	115.0	268.6	317,050*
Illinois	1,533,059	207	—11	— 5.0	105.0	165.4	4,976,748
Michigan	1,184,304	258	4	1.6	85.6	193.2	2,773,118
Wisconsin	539,817	183	2	1.1	57.8	144.0	1,486,649
Minnesota (3)	517,606	190	— 6	— 3.1	14.5	90.0	977,556
Iowa	484,322	200	— 3	— 1.5	— 1.0	72.4	775,460
Missouri (4)	382,474	109	— 8	— 6.8	67.7	153.5	272,589*
East Central States	**6,472,296**	**193**	**— 5**	**— 2.5**	**65.0**	**153.9**	**14,627,025**
North Dakota	66,651	104	—15	—12.6	—42.9	31.6	74,896
South Dakota	71,080	101	4	4.1	—47.4	24.7	77,657
Nebraska	166,925	119	—17	—12.5	— 7.0	108.8	360,200
Kansas (5)	115,367	63	— 8	—11.3	10.5	152.0	300,343*
Montana	77,442	141	6	4.4	11.9	107.4	103,129*
Wyoming	26,281	106	6	6.0	14.0	76.7	41,492*
Colorado	116,422	107	..	..	20.2	167.5	175,155*
New Mexico	11,845	30	5	20.0	3.4	66.7	19,889
Oklahoma	113,886	47	3	6.8	67.9	370.0	146,408
West Central States	**765,899**	**82**	**— 4**	**— 4.7**	**— 7.9**	**105.0**	**1,299,169**
Washington	210,693	133	— 1	— 0.7	41.5	125.4	492,815
Oregon	123,129	137	..	..	69.1	197.8	197,727
California	1,934,856	425	16	3.9	74.9	144.3	3,580,634
Idaho	34,130	63	1	1.6	14.5	162.5	73,537
Utah	75,140	142	5	3.6	63.2	86.8	218,788
Nevada	23,678	306	25	8.9	85.5	363.6	26,380
Arizona	35,615	75	8	11.9	—29.9	134.4	64,229
Pacific States	**2,437,241**	**281**	**9**	**3.3**	**69.3**	**153.2**	**4,654,110**
United States	**28,217,656**	**235**	**— 2**	**— 0.8**	**89.5**	**164.0**	**52,656,387**
Hawaii	43,834	126	..	..	....	....	151,776
U. S. and Hawaii	**$28,261,490**	**$235**	**— 2**	**— 0.8**	**89.5**	**164.0**	**52,808,163‡**

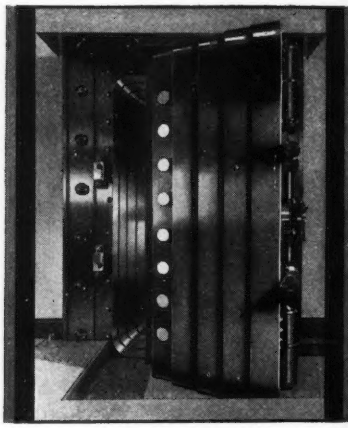
‡Includes complete reports from national banks in all States and from State chartered banks and trust companies in thirty-seven States.

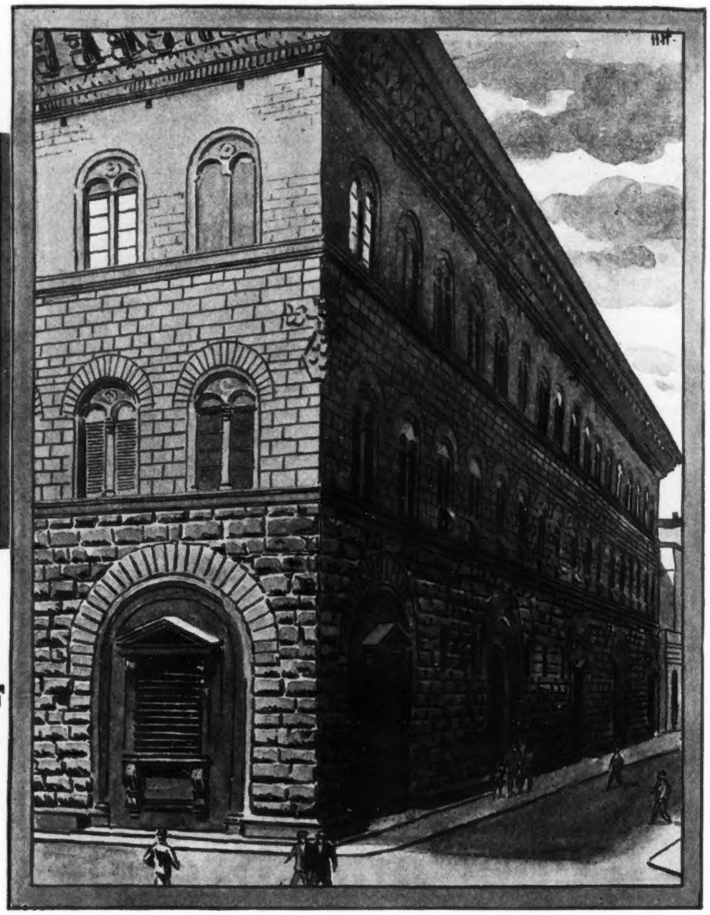
— Decrease.

*No report of depositors in State chartered banks and trust companies received for 1929. Last reported figures used.

(1) Based on estimated population, July 1, 1928. No estimate as of July 1, 1929, available.
(2) April 15, 1929.
(3) July 15, 1929.
(4) April 10, 1929.
(5) June 27, 1929.







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Emigrants of American Capital

By GEORGE E. ANDERSON

Movement for Location of American Branch Factories Abroad Believed Greatly Over-Emphasized. Not So Extensive as Many Suppose. Export of American Capital Through Investments in Foreign Industries Considered More Important Development.

THERE have been two notable reactions to the recent discussion of the movement in American industry to locate factories in other countries for the extension of American foreign trade.

One reaction has been precautionary in an effort to so shape certain schedules in the pending tariff bill as to prevent the importation into the United States of goods manufactured abroad by American concerns, such as the effort to head off Henry Ford in the matter of farm tractors manufactured in Ireland.

Another has been in the direction of seeking more light upon the subject, such as the resolution passed by the Senate in Washington at the instance of Senator Walsh of Massachusetts directing the Department of Commerce to investigate American investments abroad and ascertain to what degree, if any, American investments in industrial undertakings in other countries constitute a new "competitive menace" for American industry. The Bureau of Foreign and Domestic Commerce is to undertake this investigation in connection with a world survey now going on covering American investments abroad in all lines.

Greatly Overestimated

IT will be many months before a report on this subject will be available but in the meanwhile it is becoming rather evident that the establishment of branch factories of American industries in other countries is less important in most respects than the participation of American industrial capital in foreign enterprises which compete with American interests. Outside of Canada, where conditions are exceptional, the branch factory movement is comparatively limited. It is true that most of the automobile companies have established factories in various parts of the world, that most of the great rubber companies also have established such factories, and that the list of other concerns, large and small, which have followed suit is impressive.

However the total number of branch concerns and the total capital involved are small as compared with the total mass of capital and the great number of American industrial interests which are involved in other investments and practices abroad under circumstances that do not give the same assurance that they are in reality in extension of American trade as that usually offered by the establishment of branch factories.

Capital Exports

THIS article is a companion-piece to "Emigrants of American Industry" by the same author, which appeared in the September JOURNAL. *Here are considered the possibilities of the "competitive menace" of the investment of American capital in foreign industries. The conclusion reached is that the continued export of American capital in industrial enterprises abroad has a very important part in the maintenance of world prosperity.*

It seems quite likely that as investigation of the subject proceeds it will be found that the branch factory movement has been greatly overestimated not only as to its extent but particularly as to its actual effect upon trade. So far as trade returns show it has had no appreciable effect upon either American exports or imports of goods involved in the movement except in certain instances from Canada. American exports in nearly all such lines show the general increase which has characterized them for several years. The exports of rubber goods, especially automobile tires, which showed a slight decrease in 1928 as compared with 1927, have shown a considerable proportionate increase in the first part of the current year as compared with the same period of 1928.

More or Less Experimental

EXPORTS of automobiles and parts, industrial machinery, agricultural machinery, tractors, watches and clocks, industrial chemicals, electrical machinery and appliances, and so on show a steady, in fact an accelerated increase. Exports of hardware and cutlery, rayon, sewing machines, and various miscellaneous articles whose manufacture abroad has been undertaken by American concerns show increased exports this year as compared with the same period of last year, some of them having shown decreases last year as compared with 1927.

On the other hand imports of cutlery, except tools and razors and parts, which is one of the branch factory bugaboos are decreasing or stationary. Imports of industrial machinery, agricultural machinery, industrial chemicals and watches and clocks decreased in 1928 compared with 1927 but show an increase in the early months of this year. Most textiles show a decrease. In practically all of these items the increase in our exports is far larger proportionately than any increase in imports. The export of American tractors has increased at the rate of about 30 per cent in the past eighteen months while the imports are yet to be important enough to be separately listed.

Management Is Easy

THE fact is that the branch factory movement in Europe is more or less experimental and it is yet to be determined how far such factories will prove profitable. The experience of those American concerns which have gone into manufacturing abroad has certainly not been uniformly satisfactory; in fact it is commonly reported that several of them have lost money. Moreover conditions in other countries which lead to the establishment of such factories change. Foreign tariff laws on which most of them depend can be modified almost over night. Foreign regulations often prove irksome and burdensome—a General Motors factory in Japan was closed by the government on October 12 because it had failed to comply with government regulations. There is also the continued hostility of local interests to be contended with; long distance management is often expensive and unsatisfactory; in short the difficulties are numerous and serious.

Most of these disadvantages can largely if not entirely be avoided by foreign control of foreign factories brought within a measure of American control by American financing. In nearly all respects these observations do not

apply to Canada. Imperial preference granting special rates of duty on goods imported into various British dominions from other parts of the Empire is a notable advantage for American factories domiciled in the nation to the north of us in their trade with Australia, South Africa and other British territory.

Moreover, Canadian trade and industrial conditions are so nearly like our own; American factories in Canada are so close to home as to be substantially a part of the American industrial system that management is easy; and Canadian industrial interests are already so closely assimilated to domestic conditions in the United States that the extension of American factories to Canada is much like an extension to other parts of the United States. Most of the products of American factories abroad now imported into the United States are from Canada. So long as agricultural implements are imported into the United States free of duty such imports from Canadian-American factories will be large since they are altogether a matter of convenience and in many localities freight rates favor the Canadian product. It may be a little hard on American competitors but it is in aid of the farmer; and everybody loves the farmer.

Far more important than the branch factory movement are the investments in other countries in plants which have to do with the furnishing of raw materials for American concerns—nearly half a billion dollars in the paper pulp industry in Canada and other countries; hundreds of millions of dollars in oil wells in Mexico, Venezuela, and elsewhere; many more millions in rubber plantations in the Far East, Africa and South America; millions in manganese, copper, nickel, and other mines all over the world. Such investments of course are the basic need of American industry which otherwise would be at the mercy of alien owners in supplies which lie at the very foundation of American industrial life.

Billions Invested

CORRESPONDING to these are the great investments of American manufacturers and exporters in plants relating to the distribution of their goods, —the great organizations, warehouses, storage tanks and tinning plants of the oil companies; the warehouses of shipping companies; warehouses and distributing plants of automobile, rubber and cotton companies—in short the foreign end of the export trade machinery of the country. Such enterprises are often confused with the branch factory movement whereas they are the accessories of our own factories. They are the natural development of American foreign trade and have been going on for a long time, in a period long antedating the world war.

Since the world war, however, and especially in the past four years, there has been an enormous development of the movement for the purchase, in whole or in part, of foreign factories by American interests in the same line of business. With this really astonishing movement of capital in the past few years has been the immense investment of American capital in the bonds and other securities of foreign industrial concerns which are in direct competition with American industry. The Department of Commerce has estimated that the holdings of Americans in the way of direct investments in other countries or foreign issues privately taken amounted to a little over $5,900,000,000 in 1925. The movements of such capital since that time show a net increase of such investments abroad of $189,000,000 in 1926; $206,000,000 in 1927 and $328,000,000 in 1928 making a grand total of such investments held abroad of $6,623,000,000 at the end of last year.

During the current year this total will probably be increased. Of this grand total, $2,500,000,000 has been estimated to represent direct whole or partial ownership of or some participation in industrial undertakings. Of the balance a large share represents the ownership of foreign industrial securities while in recent years about 30 per cent of the large volume of foreign corporate issues publicly offered and sold in the United States have been for corporations engaged in industrial or similar lines. No really definite or reliable statistics in this line are to be had short of a world survey but it is quite evident that the corporate security and whole or partial ownership end of this foreign movement of American capital is vastly greater than the branch factory movement.

American Control

THE difficulty in appraising the effect of such investments lies in the impossibility of drawing close lines of distinction with respect to the relation of these foreign companies or interests to the American interests concerned. It is easy to understand, for example, that when an American automobile company establishes a branch factory abroad it does so more or less directly in the extension of its foreign trade. This step may be necessary for various reasons. It may be that a high tariff prevents the further extension of the American company's trade in the country concerned; competition from domestic cars may be such as to compel the step; local laws favoring domestic manufacture may lead to it—there are all sorts of reasons for the new factory.

But when an American automobile company buys either a partial or a controlling interest in a foreign factory which continues to manufacture foreign style cars, what is the inference or implication? It may, of course, be simply an investment. It seems probable that American control or the presence of American directors upon the company's board means a trade understanding which may have far more important reactions upon the automobile trade of the United States than the establishment of a new American automobile factory abroad.

The investment of capital in an electrical concern in Holland by an American manufacturer of electrical equipment and the interchange of patents between the two concerns may represent mere investment or manufacturing convenience or it may mean a division of the foreign trade field. In short a considerable portion of the investment of American capital in industrial enterprises abroad has a direct bearing upon and grows out of the foreign trade or the mutual trade relations of American and foreign concerns engaged in the same line of business.

The extreme development of such conditions is found in the international cartels in some lines to which some American interests are parties. The International Match Company, for example, is carrying American capital in widely scattered parts of the world in the furtherance of its business. The European aluminum cartel, the European rayon cartel, and other similar organizations are largely financed in the United States by interests closely allied to American industries in the same lines. It is well understood, of course, that European industrial interests also have large investments in American concerns in their line of business. No doubt many factories abroad are acquired by American importing interests to insure satisfactory supplies of goods they require.

The Competitive Menace

WHILE it has been officially estimated that at least a billion and a half dollars of American capital have been invested in corporate securities abroad and that at least a third of this or half a billion dollars is invested in the bonds or other securities of manufacturing industries, steamship lines or other enterprises which come into direct competition with American industries of the same sort, it is evident that it is impossible to draw a distinct line between such investments and investments which participate directly in the operation and earnings of foreign enterprises. Aside from the factor of international cooperation or combination in such investments they are usually regarded as matters of pure finance—the loaning of available American funds in a profitable market, as indeed they are.

But it is also quite evident that such loans introduce another phase of the "competitive menace" to American industry in that they afford the means whereby competition with American concerns in similar lines can be made effective. Some striking examples of such loans are those made to shipping companies such as the Cunard Line, the Holland-Amerika Line, the Hamburg-American Line and others which strengthen these concerns in their competition with American shipping companies and even with the Shipping Board of the United States—some loans in fact being given for the purpose of enabling these foreign interests to build ships for such competition.

Loans both in publicly offered and

(*Continued on page* 541)

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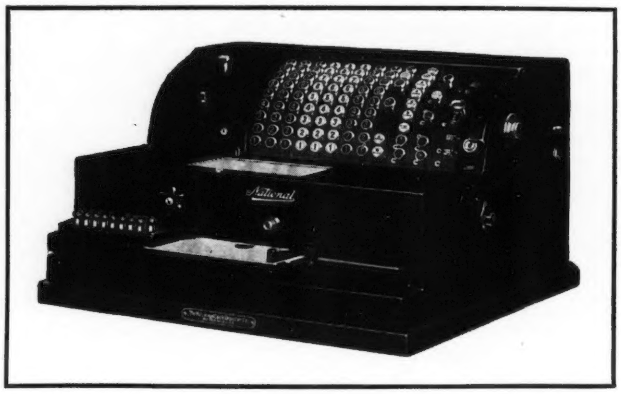

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The Condition of Business

Industry and Trade Continue in an Active and Sound Condition Despite the Crash in the Stock Markets. A Return to Normal Money Conditions Promises a Revival of the Bond Market and the Resumption of Building Construction. Corporate Earnings.

THE tornado of stock liquidation that struck the security markets during the past month has severely shaken the American speculative structure. Now that the crisis has been passed and the fallen debris cleared up it can be seen that the underlying foundation is still sound and that the principal damage done by the storm was to tear away the superstructure that had become topheavy through over-extended credit.

The runaway bull market of the past several years seems to have ended. The "New Era" enjoyed a merry life but a short one. The pseudo-economists must go back to their books and learn sound principles. The day of easy profits without labor has passed. Trading on margin has not proved the royal road to wealth.

Numerous constructive elements now enter the business picture. A genuine bond market promises to return. Building construction should revive as funds are again available for purchasing real estate and mortgages. Commercial enterprise should be stimulated with the burden of high interest rates removed. Foreign loans can again be sold to provide credits with which to build up our export trade. Men and women will for some time to come pay more attention to business and less to stock tickers.

Immediate Effect of the Slump

WHILE the immediate effect of the stock crash perhaps may be to curtail purchasing power somewhat for those classes of merchandise outside the range of necessities, the seriousness of which it is impossible to estimate with any degree of accuracy, a broad analysis of the situation will show that the ultimate result should be highly beneficial. Many individual holders of stocks have lost heavily, but America is noted for its rapid "come-back" after any disaster and this should be no exception. In addition to the favorable influence of a return to normal money conditions, not only in this country but the world over, an examination of the major industries shows that they are practically all in a sound condition, operating actively yet conservatively. Trade continues to run in large though not record-breaking volume and there is not a doubt but that sales for the full year 1929 will show a normal growth over last year. Federal reserve banks and member banks are in a strong position. Earnings this year are making an excellent showing for manufacturing and merchandising companies, railroads and public utilities, a tabulation of approximately 600 reports for the first nine months showing an increase of 18 per cent over the corresponding period last year.

Although this review is devoted primarily to business conditions, the crash of the security markets during the past month has practically monopolized the attention of the business world, and it is important to recognize the change in psychology that has come over the public and to trace the causes that led up to the collapse of billions of dollars in values.

A fundamental change in viewpoint has occurred, and people have been rudely awakened out of the dreamland of new eras, new principles, etc., to face the daylight of the old era, and old principles. As expressed by Wall Street brokers in rather cruel humor, stocks are now quoted "ex-imagination," and also "ex-margin." Federal reserve warnings against excessive speculation were referred to with contempt not many months ago, but during the crash every stock speculator rejoiced that the reserve banks were throwing funds into the market by purchasing government securities. Conservative New York bankers who urged a reduction in loans were termed "old sober-sides" by their more optimistic friends, but these same bankers averted a panic by forming a huge pool to retard the violence of the liquidation. Unheeded were the admonitions of authorities whose experience runs back to former collapses of inflated values, but now it is realized that such men deserve only commendation.

From All Over the World

AS an illustration of the change in public psychology caused by the market break, it is interesting to look back at the last warning against speculation issued only two months ago by Roger W. Babson, and to see how it was then regarded. We quote in part from an editorial that appeared in the New York *Evening World* of September 7, 1929:

"More people are borrowing and speculating today," the warning begins, "than ever before in our history." Much has been done, as by the Federal Reserve System, to strengthen the foundations of credit. But all this "has not changed human nature." "The economic cycle is in progress today as it has been in the past"—by which he means the periodic succession of flush times, panic and depression. "Sooner or later a crash is coming and it may be terrific. Wise are those investors who now get out of debt and reef their sails."

To Wall Street itself this has become an old-fashioned and exploded way of looking at the matter. New conditions have come into industrial being. A new philosophy of the Nation's economic life is being written. And this philosophy has a very able interpreter in Prof. Irving Fisher of Yale, who promptly comes forward to deny any such forecast as Babson's.

While there will be recessions in stock market prices, says Professor Fisher, there will "not be anything in the nature of a crash." And his reasons for so believing:

"We are living in an age of increasing prosperity and consequent increasing earning power of corporations and individuals. This is due in large measure to mass production and inventions such as the world never before has witnessed."

Whenever a great mass of people suffer a loss there is a tendency to try to find someone other than themselves upon whom to place the blame. Some criticism is now being heard against bankers for the encouragement they gave to the speculative boom by lending funds, when as a matter of fact member banks throughout the country have cooperated whole-heartedly with the Federal Reserve Board in its effort to prevent the diversion of excessive funds into secured loans. Banks could not call in all of their collateral loans, for this would raise rates to an exorbitant level and promptly cause a money panic, with its resultant disastrous effect upon business. A substantial amount of secured loans is needed to enable the exchanges to function and to furnish a market for capital that is gathered from all over the world and applied to business development, also to temporarily carry bonds and stocks that have been sold to pay off bank loans but not yet distributed, representing bank money that goes into business through a different channel than ordinary commercial paper. The major portion of the money used to finance stock transactions has come from corporation lenders, investment trusts, foreign interests, etc., in addition to the capital invested by the brokers themselves and that put up by individuals.

During the Dangerous Stage

THE speculative orgy reached its climax not because of the attitude of commercial bankers but despite the concern they felt and the warnings that they frequently expressed. The general opinion among bankers on this question can be seen from tracing back the comments appearing in this monthly review of business since the beginning of the year, although it can be carried back much further than that. Following are a number of excerpts regarding different phases of the business, credit and security situations:

January, 1929—Amid the flood of optimistic year-end forecasts for industry and trade

there seems to be a disposition to sidestep the money market problem entirely, or, at best, to pass over it with the assurance that after the turn of the year normal rates will doubtless again prevail.

February, 1929 — Our "money problem" would disappear if investors throughout the country would for a few months devote income to paying down loans, but instead the disposition is to further expand commitments on borrowed money.

March, 1929—Conservative bankers who have studied the course of credit expansion in recent months cannot help but have realized that a disproportionate share of the country's liquid banking deposits was being put into secured loans, which may be safe but are not self-liquidating and are not eligible for rediscount at the central banks.

April, 1929—The relation of selling price to earnings is a point that might well be examined by the banker as well as the shareholder, for earnings will ultimately determine selling price, and stocks which a few years ago sold at ten times earnings and now sell at thirty times earnings should be scrutinized closely.

May, 1929—We have referred to this problem repeatedly, pointing out the difficulty of encouraging a liquidation in the securities markets because of the bullish temper of those markets and the unfavorable effect upon individual investors and on general business that any forced decline in quotations always has.

June, 1929—The tight rates prevailing have killed the mortgage and industrial bond markets for both domestic and foreign issues, the latter constituting a threat to American export trade that to date does not appear to have received the attention that it deserves.

July, 1929—It is becoming generally acknowledged that many stocks are selling so high as to "discount" the anticipated increase in earnings for a good many years to come, and current yield on high grade issues amounts to perhaps one-third of the carrying charges.

August, 1929—This does not infer that the present expansion is necessarily coming to an end, for no one can foretell how far inflation may proceed when it is once started, nor what event will mark its reversal.

September, 1929 — So much has been preached recently about the advantage of "equity" issues that one might think the popularity of fixed term investments would never return.

October, 1929—A 50 per cent increase in brokerage loans annually may, in this exceptional economic era, be regarded as only a healthy rate of growth, but it is not doing business any good and even the stock market has been unable to make any progress.

Such views as the above are believed to be typical of those held and freely expressed by the rank of responsible bankers throughout the country during the dangerous stage of credit expansion, and there is no reason to doubt that their counsel will be wise and helpful in the readjustments that are now restoring business to a sound and normal basis.

Gain in Business Profits

ASIDE from the security markets, which have been discussed at more than usual length this month, the news of next importance would seem to be the exceptionally favorable reports of corporations covering their operations in the third quarter and for the nine months. The following tabulation gives a very broad and at the same time condensed picture of American business, showing the continued growth in earnings classified into twenty-eight major groups, twenty-five of which are ahead of last year and only three of which are behind. In each group is shown the number of companies on which reports are available, together with their combined net profits after all charges but before dividends.

American Corporation Earnings

Summary of Net Profits in Published Reports Covering Nine Months (000's Omitted)

No.	Industry	1928	1929
4	Amusement	$8,383	$11,671
2	Apparel	533	732
13	Automobile	313,893	304,421
14	Auto Accessory ...	23,912	33,072
7	Building Material..	17,534	20,059
7	Business Equipment	5,407	7,318
15	Chemical and Drug	98,969	119,139
6	Coal and Coke....	3,481	4,666
8	Electrical	41,286	54,008
6	Flour and Baking.	21,382	28,055
13	Food Products....	56,006	62,625
11	Household Goods..	19,359	23,134
17	Iron and Steel....	130,142	251,541
2	Leather	3,727	D–1.821
12	Machinery	14,716	20.210
6	Merchandising ...	11,632	13,078
9	Metal Mining.....	9,683	13,247
2	Paper Products...	1,542	1,129
13	Petroleum	53,318	71,523
2	Printing and Pub..	16,944	18,907
5	Real Estate.......	2,750	5,495
5	Restaurant Chains.	2,855	4,449
5	Textile Products..	3,288	3,982
3	Tobacco	5,242	5,300
16	Miscellaneous	16,088	20,560
205	Mfg. and Trading.	$822,162	$1,095,500
181	Railroads	819,855	P-958,498
100	Tel. and Tel......	199,208	P-212,796
95	Other Utilities	621,216	P-730,740
581	Grand Total......	$2,522,441	$2,998,534

D–Deficit. P–Preliminary.

For the 205 industrial and trading companies representing every important line of business the combined net profit in the first nine months of 1929 aggregated $2,998,534,000 as compared with $2,522,441,000 in the corresponding period of 1928, there being a gain of $476,000 or 18 per cent.

Steel companies made an increase of 93 per cent in profits as compared with last year, and 1929 will undoubtedly set new records in both production and earnings. Mining companies producing copper, lead, zinc, etc., all profited by larger production and better prices, and net profit for the group is 37 per cent ahead. The automobile manufacturers have not, speaking generally, done quite as well as in 1928, because of the direct and indirect competition of the new Ford, whose production in the first nine months of 1929 amounted to 1,633,000 units as contrasted with only 466,000 in the same period last year. Auto accessory and parts manufacturers have had a somewhat irregular business because of fluctuations in finished car production, but the combined total of profits is 38 per cent ahead of last year. In building materials a similar somewhat unsatisfactory condition exists, marked by curtailed demand, price cutting, and the trend to "specialties" in place of standard exteriors, flooring, woodwork and roofing, but the group, nevertheless, made a gain of 14 per cent.

Other Gains

OTHER prosperous industries, which need not be discussed in detail, include machinery, which for twelve companies shows a gain of 37 per cent, electrical apparatus with a gain of 30 per cent, chemicals and drugs with fifteen companies showing a gain of 20 per cent, business equipment with a gain of 35 per cent for seven companies, and household goods which gained 19 per cent for eleven companies. Four companies in the moving picture and theater business increased earnings 39 per cent. Five real estate concerns doubled their income. Six merchandising chains increased their profits 12 per cent and five restaurant chains by 56 per cent. Thirteen food companies gained 11 per cent while six baking concerns gained 31 per cent. Printing and publishing increased by 11 per cent.

Certain industries can always be found that are not operating under conditions as satisfactory as the majority. This would include the leather tanners, who suffered from a severe break in hide prices last spring. Coal mining is still depressed, yet six companies increased their earnings 34 per cent this year. Earnings in the paper and paper products lines are lower than last year for the companies so far reporting, although for the third quarter they were slightly higher. Petroleum production and refining has been laboring against excessive output, yet thirteen oil companies made a 34 per cent gain this year. Textiles and apparel are still trying to build production and demand up to normal, but the limited number of reports in these two groups show gains of 21 and 37 per cent respectively. The tobacco industry is now recovering from the unsettlement caused by price cutting earlier in the year and earnings are about the same as in 1928.

Turning to Bonds

RAILROADS will finish the year with banner earnings, even allowing for a possible moderate recession in the pace of general business in November and December. For the first nine months the net operating income of the Class I systems (with September partly estimated) amounted to $958,498,000 as against $819,855,000 in the same period last year, this representing a gain of 17 per cent. Ninety-five public utility systems supplying electricity, gas, water, steam,

(*Continued on page* 536)

Major Bond Financing in October

Issue	Amount	Rate	Due	Price	Yield
Texas Corp. conv. s. f. deb.	$100,000,000	5	1944	98½	5.125
City of New York....................	50,000,000	5¾–6	1929–30	..	5.50
Southern Bell Tel. & Tel. Co. 1st s. f. ..	32,000,000	5	1941	100	5.00
Canadian Natl. Rwys. Co. gtd.	30,000,000	5	1969	98½	5.12
Port of N. Y. Authority bridge B......	30,000,000	4½	1939–53	95	4.86–5.15
B. & O. RR. Co. eq. tr. F..............	13,500,000	4½	1930–44	..	5.125–6
Waldorf-Astoria, N. Y. 1st leasehold...	11,000,000	7	1954	103	6.68
Gatineau Power Co. 1st...............	11,000,000	5	1956	93	5.50
N. Y. Central RR. Co. eq. tr.	10,200,000	4½	1930–44	..	5.15–6
Puget Sound Pr. & Lt. Co. 1st & ref. A	8,000,000	5½	1949	97¾	5.65
Gen. Water Works & Elec. Corp. deb. B	7,250,000	6	1944	95¼	6.50
"Hansa" Steamship Line.............	5,000,000	6	1939	93	6.98

The Technique of Character Loans

By HOWARD HAINES
Vice-President, The First State Bank, Kansas City, Kansas

Six Sound Rules for Safety and Profit in Operating a Small Loan Department Outlined for Bankers Who Experience Doubts After Entering This Field of Business. Nervousness, a Natural Characteristic at the Outset, Gives Way Before Tangible Results.

"WE'VE put in our small loan department," gleefully wrote a South Carolina banker thirty days ago. Then came a letter from the same desk inquiring:

"May we now impose upon you for a little more help on the finer points of making and collecting. We are not sure we know all about these character loans. How long do you require an applicant to be on his present job? Do you send notices for each monthly payment?"—And so on.

In short, the letter says "You've got us in this and we expect you to see us through."

"The Dubitative Complex"

FINE! Do not be in the least fidgety Mr. Banker now that you have got her going. You are entering the stage which produces what some small loan men call "The Dubitative Complex." You have carefully organized the small loan department and opened with the necessary publicity. You have met the "bums rush" and become acquainted with most of the dead-beats and live-beats in your city; investigated several hundred applications; declined a majority, we hope; approved the remainder; worked like the devil all the time. Now step upon an imaginative pedestal for a brief second to get away from the constant hub-bub in order that you may survey results.

In doubtful perplexity you notice that during the first month only $4,000 in these petty loans has been made. The total discount on this amount has been a mere $320, while the expenses for the department amount to $850. Then, you reason, there has been advertising and in the future there is going to be some losses on collections and there may be a few bad loans—some of that $4,000 now in the case may be bad.—Not a single one of them has made a payment yet. The more you reason the worse you feel and if you could see yourself you would know at once what ails you. You have been in it just long enough to have developed an excellent case of doubtful complexes. There has never been a small loan specialist that did not get it.

Home Treatments

THE malady may be relieved promptly by a good game of golf and a cold shower. In case this prescription is too strenuous you have no business dabbling in small loans. After this complete change of thought the general situation appears more encouraging.

Step by Step

AN article by the same author in the September JOURNAL *on the demonstrated success of small loan departments in banks produced a flood of inquiries for details of operating methods and administrative policies. Here are set forth, out of a fund of experience, the steps which follow from the receipt of an application to the collection of the loan, backed by the encouraging and proved fact that the possible percentage of loss is very slight.*

It is clear that you have actually made good progress to have accumulated $4,000 in loans the first few weeks. As the volume increases the borrowers act as an endless chain, bringing many friends and relatives to the bank. Then, there are renewals of loans, which from past contact you know to be excellent. The investigation cost of these is practically nothing. If you made $4,000 in advances the first month, the experience of more than 100 other banks shows that you should make $6,000 the second. This fact in itself should relieve the worst case of lost spirits, but should it not, remind yourself of that if, after many months, the department succeeds in barely making expenses, you are still ahead of the game, for the small loan department brings many new checking and savings accounts.

An Oklahoma bank says: "During the past month we have obtained forty-three new checking accounts which we have traced directly to our personal loan department. We believe in the course of time one of these departments will bring great indirect benefits."

But to get back to the letter from South Carolina and some of the "finer points of making and collecting."

In-Between Borrowers

IN approving applications you will most frequently have to consider the "In-Between" borrower. He is neither good nor bad. He owes $300 on his car but his salary is $200 a month. He is buying his home on a contract, but does not seem to be keeping up the payments. He has worked only one and a half years at his present position. You wonder why he is getting behind as there are only three in his family who are dependent upon his income and he explains this away by saying his wife was sick for three months. One creditor reports him "slow." Another says he is "prompt." You are "on the fence." It is a question in your mind whether to approve his loan or not.

In dealing with this, one of the most common types, the tested rule is: Never make a loan when you are not absolutely sure. The least doubt is sufficient for declining. Take no chances. You need not. You will get plenty of business without taking them.

Not infrequently loan men tell me they have what they call "hunches." If you are susceptible to these, follow them. If not, in which case you merely have doubts, follow them also.

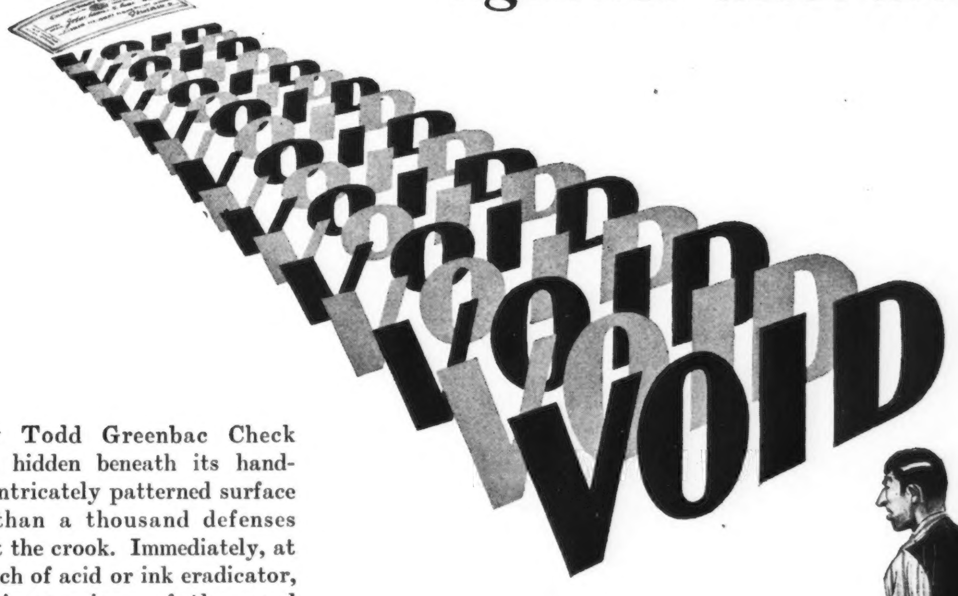
The Shaping Process

THIS brings us to what is almost a perfect safe-guard against possible losses with such questionable applicants—the obtaining of additional endorsers or security. An eastern institution states that during the past twelve months they have approved 87 per cent of the applications received. This is only possible by working over approximately 50 per cent of the applications. The applicant may be asked to get another co-maker or questioned as to what further security he may offer. The majority will do this willingly. Those that refuse are not wanted.

By this practice your department may actually approve from 75 per cent to 90 per cent of applications, which is much better than promptly rejecting

(Continued on page 504)

A *check with a* thousand barriers *against alteration*



EVERY Todd Greenbac Check carries hidden beneath its handsome, intricately patterned surface more than a thousand defenses against the crook. Immediately, at the touch of acid or ink eradicator, many impressions of the word "*Void*" leap out, cancel the check and frustrate the forger. What a remarkable protection for your funds! A check that cancels itself as soon as danger threatens! Todd Greenbac Check it is—the only check with this marvelous defense against alteration.

Todd Greenbac Checks with their patented self-canceling feature prevent change of payee's name, date and number. Their manufacture is carefully guarded to prevent the possibility of counterfeiting. By a secret process, interlocking patterns of several colors are used to form a beautifully finished surface in which are concealed the thousand and more imprints of "*Void.*" Greenbac paper is never sold in blank sheets but is lithographed and printed only to individual order —and delivered *under seal* to the customer.

Todd Greenbac Checks are made of the highest quality paper and have the individuality of a personal bank-note. Yet the price of these attractive, safe checks is moderate. Let a Todd representative in your city demonstrate the Greenbac. Or return the coupon for complete information. The Todd Company, *Protectograph Division.* (Est. 1899.) Rochester, N. Y. *Sole makers of the Protectograph, the new Super-Safety Checks and Todd Greenbac Checks.*

Because Todd users qualify as preferred risks they enjoy discounts of from 25 to 60% of standard premiums for forgery insurance.

Todd Trade Mark

TODD SYSTEM OF CHECK PROTECTION

THE TODD COMPANY 11-29
Protectograph Division
1176 University Avenue, Rochester, N. Y.
Please send me further information about Todd Greenbac Checks.

Name__________

Address__________

Business__________

The Technique of Character Loans

(Continued from page 502)

those that check a few degrees below par. Among the add-ons you may obtain are insurance policies, diamonds, Christmas saving cards, furniture, automobiles, or any of the various forms of collateral. Many borrowers have stock or bonds which they do not wish to dispose of for certain reasons. The rate on personal loans makes this type of risk very attractive, considering its safety.

Continued to Borrower

AMAZING as it may seem there comes to a certain bank at intervals a gentleman who is the proud possessor of a savings account amounting to $468. He invariably applies for a loan of $150, offering as security his savings passbook. The banker, feeling that this customer needed good advice, on one of these occasions said:

"Mr. Brown, it is rather poor business for you to borrow $150 of our personal loan department at 8 per cent, when you have the money here on your savings at only 3 per cent."

In spite of this obviously sound counsel Mr. Brown refused to draw on his savings and continued to borrow on it. Other bankers report the same experience. The class, although queer, should not cause insomnia.

An Odd Practice

BEFORE taking up the subject of forceful collecting, it may be added that in approving risks a very careful check must be made of all references. Both credit bureau reports and direct reference should be the practice. In seeking information of this nature you must become acquainted with most of the other small loan agencies in your city. You will have no hesitation, of course, in asking for specific information from other banks, but in requesting such facts from loan companies, you may meet with this reply:

"We do not give credit references on our customers."

This is an odd practice of some companies who fear they may lose business by giving information. Sometimes they will give confidential information to credit bureaus and sometimes not. They are hardly worth considering and such refusals may be gotten around by requiring borrowers to show receipts or books indicating how they met their payments with such concerns.

As a general rule, however, most agencies realize that cross references by direct call are a valuable and necessary attribute to successful operation. They will call you and in spite of any efforts your bank or clearinghouse is making to charge for such credit information, make it a rule to trade gladly full and accurate data regarding borrowers. Industrial loan associations are worth joining. Their meetings usually bring out valuable points and the rules of such organizations are worth following.

Makes a Better Customer

SOME banks are not making small loans to exceed $300. More are making them from $100 up, according to the borrowers' ability to repay. Practically all are insisting that a loan when made will consolidate all the applicant's indebtedness, and still not exceed 20 per cent of his yearly income. We have mentioned these points before, but a rehashing is by no means lost time. Bankers are now declining all loans for speculation. They lost too many good deposits on the bull market now.

At all times in approving loans the policy of offering sound advice to the customer regarding his particular needs is best. This, in some instances, amounts to losing a perfectly good loan, but it usually makes a better customer for your bank or others.

If you have observed strictly all the safeguards mentioned for small loans, it is not necessary for you to spend much time on collections. However, you will have an average of 10 per cent that do not meet their payments on the day they are due. The credit manager for one of the largest installment houses in the country said to me a short time ago:

"We pave the way for good collections at the time we open an account. We impress the customer with the fact that we must have prompt payments and we tell him we prefer to make the payments smaller if necessary in order to have them made when due. We send notices for each payment."

The Honor System

A SMALL loan man in Atlanta goes one better than this. He says:

"Contrary to the usual practice, we do not send any notices to our borrowers. When we close their loan we give them a pass-book and tell them we will depend on them to keep the payments up. We find this is very effective and, incidentally, saves us more than $1,200 yearly in postage. Of course, we have a careful follow-up system for the few who become delinquent."

This is an excellent theory and along with a touch of flattery places the borrower upon his honor. The economic argument for this system is also worth considering.

Still there is the 10 per cent that miss. A past-due notice is to be sent within a week after payment is due. A week later a brief individual or form-letter is effective, especially if it mentions the necessity of promptness in building credit and the unfortunate fact that credit built so slowly may be shattered quickly.

To the small percentage who do not answer this appeal must go your warning that you do not dilly-dally with those who refuse to meet you half way. You should have available for this purpose a supply of final notices to be sent the borrower as well as the endorsers.

Surprisingly Effective

UPON receipt of these endorsers often exert tremendous and surprising influence upon the borrower.

A form of final notice, which is proving most effective, is headlined:

FINAL NOTICE BEFORE SUIT

State of Kansas,
County of Wyandotte.
The Sixteenth National Bank, Plaintiff,
Vs
John Burrows, Defendant.

1. Be advised that above plaintiff claims you are indebted to it in the sum of $........
2. Plaintiff further alleges this sum has been duly demanded and payment refused.
3. Notice is hereby given that unless you remit or appear at this office on or before .... the .... day of .... 19...., at .... o'clock ......, legal action will be brought against you under the state laws governing refusal to meet on demand a promissory note. Govern yourself accordingly.

(SEAL) ....LS
For the Claimant

These notices when resembling a legal service document often save an attorney's fee. Actually there is nothing in this notice that you would not include in a stiff collection letter, but the form is surprisingly effective.

Out of the very small percentage of small loans that require a collector's attention there are some that are not as bad as they seem. There is the incident of Brewster Martin.

He Copied Them

MR. MARTIN obtained a loan of $200. He missed his first payment and the bank sent its regular list of collection letters. No result—not a word from Mr. Martin. Finally, a representative called on the gentleman and in no uncertain tones demanded:

"What seems to be the trouble Mr. Martin?"

"Oh, nothing at all." answered the smiling debtor. "Everything is going along fine."

"Then, why haven't you made your payments to the bank?"

"You see it is this way," confided Mr. Martin. "Those notices you fellows get out are so darn good that I've been copying them and sending them to a few customers of my own."

"What's that got to do with making your payments?" persisted the bank's agent.

"Well, I haven't quite got all my bills collected and I've been holding out for that final notice. If I pay the $200 can I get it?"

Needless to say the bank supplied Mr. Martin with the last of the series.

A bank which has about $75,000 in personal loans writes: "We spend

(Continued on page 542)

The Basis for Branches

By A. J. MOUNT

President, Bank of Italy National Trust and Savings Association, San Francisco

IN determining upon the establishment of a branch office there is to be considered primarily the matter of public convenience. In California, the law relating to this subject—under the provisions of which state banking systems are administered—specifically sets forth that the promotion of public convenience and advantage is the essential factor.

Certainly a banking office that is not so situated that it will be of benefit to prospective customers, will have a hard struggle from the outset, and no far-seeing banker willingly is going to permit his institution to set up a branch that lacks the ability to be of service.

Trading Tendencies

LIKE other constructive undertakings, the selection of a new location requires a careful preliminary survey. In metropolitan areas the initial step is concerned with a division of the city into districts. This is more than an arbitrary geographical separation of units, since it must give weight to trading tendencies, arteries of travel and direction of business development. Here are some of the significant considerations in the determination of a branch location:

1. Area to be served.
2. Population.
3. Number of present customers in district.
4. Number of stockholders in district.
5. Number and class of stores.
6. Location of other banks.
7. Location of chain stores.
8. Side of street.
9. Transportation facilities.
10. Direction of traffic.
11. New construction.
12. Distance to nearest branch.

Personal surveys are made by a qualified officer, whose report is accompanied by a sketch of the tributary business and residential districts under scrutiny. The report deals with all the factors outlined, and also reaches into such special conditions as may have a bearing on the subject. Experience indicates that only the territory that can be actively supervised by the branch manager should be permitted to have weight in reaching a conclusion. Bank service is fairly well standardized, and the business pull exercised in any given instance is usually found to be availability.

Profit Paramount

WHILE in general the service of each new branch may logically be expected to expand until it embraces services that are identical with those offered at the larger offices, at the same time desire must be tempered with judgment, and the expansion permitted to flow with the needs and opportunities of the specific location.

The paramount consideration in the establishment of a branch, of course, is profit. While an occasional loss may be anticipated during the early months of a branch's existence, this should be regarded as an exception and not the rule. Proper care in the original survey and thoughtful consideration of the various elements that sway a decision, will go a long way toward the elimination of costly mistakes in the choice of location.

A Complete Picture

ASIDE from the physical aspects of the situation, the selection of the branch manager and his staff is of prime importance. Those who are to be responsible for the conduct of the new office need, not only through knowledge of bank routine and institutional policies, but also an appreciation of the value of community contacts in the development of business. Only those who have a record as producers should be assigned to branch office positions.

Before the final decision is reached with respect to the establishment of the new branch, there is in hand a complete picture of actual conditions, together with data relating to economic facts of an essential nature, as well as an understanding with respect to the available personnel and its adequacy.

The New Form for A. B. A. Cheques

A NEW form of American Bankers Association travel cheque, identical in size with the new small size United States paper currency, is soon to replace the original cheque which has been in use for the past twenty years. The new form of the travel cheque was authorized by the American Bankers Association at its San Francisco convention in October.

It is estimated that it will require four months for the production of the new cheque. Meanwhile the large size cheque will remain in use.

Reduction in the size of the A. B. A. cheque marks another step in the program of the American Bankers Association for uniformity and convenience in bank cheques and bank forms, according to John G. Lonsdale, President of the Association. Announcing the change, he said:

"The American Bankers Association travel cheque was adopted twenty years ago (*Turn to p.* 543)

Tax on Bank Shares

(*Continued from page* 452)

states on account of the Macallen decision and preserving the classification of banks with the other corporations for tax purposes.

One proposal, on account of the exclusion of tax-exempt income, limits the deductions from gross income otherwise allowable to only that part of them which bears the same proportion to such total deductions as the taxable gross income bears to the gross income from all sources. The design of this method is to increase the net income base by reducing the allowable deductions from gross income, in view of the non-taxable income from exempt sources.

Within the Condemnation

IN other words, on account of the holding of tax-exempts, the ordinarily allowable deductions from gross income are decreased pro rata; consequently, in such event, the taxable net income might be subjected to a greater burden than would be the case if no tax-exempts were possessed at all. This result would seem to bring this proposal within the condemnation of such methods by the Supreme Court, as held in *National Life Insurance Company* v. *United States* (277 U. S. 508). There it was said:

> "One may not be subjected to greater burdens upon his taxable property solely because he owns some that is free."

The other proposal of the Saranac Inn Conference to meet the legal and revenue situations resulting from the Macallen Company decision, is the new "fifth" alternative providing for a specific tax on the shares. That proposal is as follows:

> "(e) In case of a specific tax on the shares of a national banking association, the base of the tax on each share shall be determined by adding together the total dividends paid to the stockholders during the preceding year and the amount by which the capital, surplus and undivided profits at the end of such year exceed the capital, surplus and undivided profits at the beginning of such year, so far as such increase was derived from the undistributed earnings of such year, and dividing such total by the number of shares issued and outstanding at the end of such year. The rate of such tax shall not be higher than the rate authorized in paragraph '(c),' provided, however, that the taxing state may establish a minimum tax on each share under this paragraph, the base of which shall be the capital, surplus and undivided profits of the national banking association divided by the number of shares issued and outstanding and the rate not more than one mill on each dollar. A state may at its election impose an excise tax upon or with respect to the shares of a national banking association in lieu of the specific tax herein authorized, but subject to the same limitations and conditions."

The rate authorized in paragraph "(c)," above referred to, is that applicable under the excise tax, which rate "shall not be higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing state upon mercantile, manufacturing or business corporations doing business within its limits."

Hence, under the plan of the specific tax on bank shares, the rate

applicable to the shares would be limited by the ratio of the state and local tax burden upon the other corporations to their net income, identical with the comparative rate limitation under the present income method. In practice, a rate could be fixed by statute, within a maximum readily ascertainable by adding together all the state and local taxes (excepting taxes on real estate) paid by all financial, mercantile, manufacturing and business corporations, and finding the ratio which such total taxes bear to the total net income of all such corporations. Where a state, as New York, taxes its financial, mercantile, manufacturing and business corporations exclusively (except for real estate) measured by net income, the statutory corporate income tax rate would control.

With regard to the share base under the specific tax method, the proposal clearly defines how it is to be determined. A specific tax, as distinguished from an ad valorem tax, is one imposed by some standard of measurement other than the value of the thing subjected to taxation.

Most states still adhere to the old ad valorem tax on bank shares. It was because of the gross injustices arising under the ad valorem tax on national bank shares that Congress provided the other alternative methods. So the base in the case of the specific tax on the shares is not the market, book or other value of the shares. In effect, it is the potential annual increment of the shares evidenced by dividends paid out of earnings plus increases in capital, surplus and undivided profits from undistributed earnings. Under this alternative, the bank, its property (except real estate) or its income is not taxed at all. Only the shares in the hands of the shareholders are taxed. In no way is any of the corporate property (except real estate) taxed, and neither the tax-exempts possessed by the banks nor the income of the bank from them is subjected to any taxation.

Through the Form

THE constitutionality of the taxation of national bank shares, even though the bank's capital is wholly invested in stock and bonds of the United States, was definitely determined by the Supreme Court in *Van Allen* v. *The Assessors* (3 Wall. 573).

Referring to the rule in the Van Allen case, the Supreme Court in *Home Savings Bank* v. *Des Moines* (205 U. S. 503) said:

> "Although the State may not in any form levy a tax upon United States securities, they may tax, as the property of the owners, the shares of banks and other corporations whose assets consist in whole or in part of such securities, and in valuing the shares for the purpose of taxation it is not necessary to deduct the value of the national securities held by the corporation whose shares are taxed.
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> * * * * * * *
>
> "In an opinion in which Justices Wayne and Swayne joined, Chief Justice Chase dissented from the judgment upon the ground that taxation of the shareholders of a corporation in respect of their shares was an actual though an indirect tax on the property of the corporation itself. But the distinction between a tax upon shareholders and one on the corporate property, although established over dis-

sent, has come to be inextricably mingled with all taxing systems, and cannot be disregarded without bringing them into confusion which would be little short of chaos.

"The Van Allen case has settled the law that a tax upon the owners of shares of stock in corporations in respect of that stock is not a tax upon United States securities which the corporations own."

Of course, if the tax is only nominally on the shares, but actually on the bank, the courts will look through the form to the substance and require the deduction of tax-exempts.

Where, however, Congress, in providing for the taxation of national banking associations or their shares, establishes exclusive alternative methods for use by states, and among such methods permits an ad valorem tax on the shares or a specific tax on them measured by their annual increment, no question can arise as to whether the shares or the assets of the bank are being taxed.

Congress Can Provide

AND the Supreme Court having upheld the taxation of national bank shares based on all the assets of an association, including tax-exempts, Congress can well provide for a specific tax on the shares in the hands of the shareholders, measured by the dividends paid during the preceding year, plus the increases in capital, surplus and undivided profits derived from undistributed earnings of the preceding year.

As the permissive statute would provide that the adoption of such a method by the taxing state is exclusive of the other methods, allowing the taxation of the property of the bank, then the specific tax on the shares could not possibly in any way involve the tax-exempt securities of national banking associations.

It is apparent that the specific tax on the shares, based upon the dividends paid from earnings, plus the increases in capital, surplus and undivided profits, likewise from earnings, will approximate the net earnings. As the rate of tax to be applied to these shares is exactly the same as the rate now provided under the income method, the total of such specific taxes upon the shares will about equal the taxes paid by the banks under the bank excise tax. For administration purposes, the state taxing statute can provide, in connection with the levying of the specific tax upon the shares as has been well established under the ad valorem share tax, for the payment of such taxes by the bank as the agent of the stockholders, with a remedy over against each stockholder for reimbursement.

The proposed specific tax on national bank shares preserves to the banks the fair and desirable tax classification with financial, mercantile, manufacturing and business corporations. It will produce for the bank excise tax states substantially the same amount of revenue which they are now receiving under the bank excise tax measured by net income from all sources.

Trust Services

(*Continued from page* 449)

that they afford a source of prolific business for other departments of the bank. To a great many people the trust department is the bank, and these same individuals in the course of time should be led to deal with our commercial, savings, safe deposit, bond or foreign exchange divisions. It seems to me that a great many financial institutions overlook a great opportunity by failing to impress upon their customers that they have a regular department store of banking facilities where every financial need may be provided.

On the Highways and Byways

TOO frequently we have a customer using one department, who goes to some other institution for other banking services which we ourselves have and should be supplying to that very individual. Do we encourage our present customers to enlarge their use of our facilities as assiduously as we should? What a saving in time it means for a customer to transact all his banking business under one roof.

Let us check one department against the other and get the one-department patron using as many of our other services as he really has need for. A customer already on the books is certainly a better prospect than one hunted up promiscuously on the highways and byways of our cities. Day after day, we often go out shelling the woods for new customers, when we already have them within our gates.

Then, how about our officers, directors and leading stockholders? Have they been thoroughly canvassed for business? Have they made their wills and designated their institution as the executor? It is pretty discomforting to pick up your favorite newspaper and discover that one of your directors has passed into the great beyond and that his estate will be handled by a rival institution. Verily, the solicitation of trust business, like charity, should begin at home.

The Quickest Way

AMONG the detailed services rendered by a trust department, the one that seems to be winning favor the fastest is the life insurance trust. First of all, life insurance is the quickest known way of creating an estate. In reality it affords the possessor the opportunity of setting up a positive monetary safeguard for his family and then permits him to begin paying for it on the installment plan.

In my opinion, a married man who has children, is not fair to his family nor fair to his family's trust in him, if he fails to carry life insurance. I would even go farther than this and say to the young man, "Buy insurance before you buy the ring," and to the young woman I would say, "Marry no man who is so thoughtless as to scoff at life insurance."

There is ample evidence of the appreciation of the public of life insurance in the fact that one hundred billions of life

insurance are now in force and the companies are setting to work optimistically to write the second hundred billion. They say they will accomplish this within the next ten or eleven years, whereas it has taken three-quarters of a century to reach the first hundred billion.

Too Often "Orphan Annies"

ON all of these varied activities which I have enumerated, the bank executive should keep close watch; not that he should burden himself, except on special occasion, with minute details, but he ought to exercise a sort of general supervision so that he may know no fundamental points in the development of trust business in his institution are being overlooked.

The president of the bank should be a member of the trust committee which will serve to keep him in close contact with what is going on. And if the president has had some previous experience in trust matters, so much the better.

It is my candid opinion that trust departments too often are "Orphan Annies"; they are organized in a haphazard sort of way and left more or less to shift for themselves. When such is the case, the bank executive is failing to recognize his responsibilities. It is better not to organize a department at all under such circumstances.

Once a department is established, the president should be careful to give it ample time to make a showing. Trust business is necessarily slow in development and should not be expected to show a profit too quickly.

One of the greatest incentives to fruitful action in the trust business lies in get-together meetings. The open frank discussion of business affairs, with a view to finding the best way out of difficulties, is one of the most encouraging signs of modern times. Trade secrets no longer remain locked in the bosoms of their discoverers but are laid upon the table to become the property of any who chooses. Such a disposition to be ever helpful to our fellowmen has brought America to an undisputed leadership, not only in commerce and industry, but in the world of finance as well.

Convention Calendar

Date 1930	State Associations	Place
May 20-21	Missouri	
June 11-13	South Dakota	Aberdeen
June 16-18	Iowa	

Date 1929	Other Associations	Place
Nov. 14	Tri-State Fall Conference (Under auspices Bankers Associations of Minnesota, North and South Dakota)	Minneapolis, Minn.
1930 Feb. 18-20	Trust Co. Midwinter Conference	New York, N. Y.

Investment Trusts

(Continued from page 453)

the purpose of taking advantage of possibilities for quick trading profits in the stock market."

It may be argued that the capital structure of the trading corporation is essentially more sound than that of the typical investment trust. In a majority of instances the former has one class of security, namely common stock. Where there is a preferred stock it usually is convertible into common or the very modern feature of a preferred, whose dividend is in cash or in common stock, has been attached to it. If common alone the trading corporation has no fixed liability to the stockholder and pays dividends only as earned. On the other hand the "set up" of many of the investment trusts consists of debenture bonds, preferred and common stocks. In a number of these trusts the fixed liability security is in a rather large proportion to all capital. Most of this was created when bonds were still saleable, investment trusts were little known and the rate of interest or income yield the main selling argument for the bond plus the diversification feature. A survey made last March indicated that there were then in this country about 160 investment trust companies or funds with an aggregate capital of $1,034,000,000. Of this about 20 per cent was in debenture bonds and 42 per cent in preferred stocks. The practice, in general, was to sell a 5 or 5½ per cent bond and a 6 per cent preferred stock. For the past year both have been quoted at heavy discounts from the offering price and no attempt has been made by their sponsors to protect their markets. Neither could be sold today in any quantity without a convertible privilege attachment. They stand as a rather heavy liability to the trusts that were financed in the period between 1925 and 1928.

These same trusts had common stock outstanding of approximately 33 per cent of the whole capitalization and beneficiary certificates of about 5 per cent.

Not much change in these ratios has occurred since March for comparatively few strictly investment trust securities have been issued in the past six months. The flair has been for trading corporation common stocks or for their convertible preferred issues. Where bonds have been sold they have been disposed of primarily on the speculative chance that a conversion opportunity might subsequently be profitable.

Trading Corporation Product of "New Age"

WHENEVER there is a period of intense and prolonged speculative excitement some new type of security generally develops and to it the public rushes as to a freshly opened gold field in the quest of fortune. The trading corporation stock is the vehicle on which the present generation has started out on a ride to riches. Never in the history

of this or any other country has one kind of stock been so abundantly supplied or so completely overshadowed every other type as has this one.

Owing to the significance of this movement of capital in one direction the "Financial Chronicle" has separated the new issues of investment trusts and trading and holding companies in the first nine months of 1929 from all others. The figures show that of a total of domestic corporation bonds, notes and stocks from January 1st to September 30th of $8,661,228,272, no less than $2,239,783,064, or over 25 per cent, were in the interest of the companies which we are discussing. The nine months' exhibit, however, does not tell the real story as in the last quarter the momentum of these new capital issues greatly increased with over 60 per cent of the entire year's output crowded into this period. The figures for July, August and September were respectively, $222,011,290; $485,735,612 and $643,147,100. A close analysis of the character of the corporations that have emitted this vast sum of new capital recently will clearly reveal that a large percentage of it was not for investment trusts, as the public came to know this term up to the end of 1928, but for the trading corporation which has since come on the scene and whose future is one of the most serious of the problems growing out of the speculative craze of 1929.

I may be doing an injustice to trading or finance corporations as a class but seeing the constant birth of them—almost a daily litter one might say—it has seemed as though they were conceived to meet a demand for a personally conducted tour of the small investor through the broad avenues and the bypaths of Wall Street. I doubt if they have a permanent place in the business of investing in securities or that they will survive the next prolonged period of declining prices. Consequently, I do not see how damaging deflation of their common stocks can be avoided.

What the First Test Showed

ALREADY there are signs of this and the first test has been a severe one. Several of the most conspicuous of the trading corporation stocks were quite vulnerable to attack in the early and late October declines. They continued groggy throughout the extensive rally that followed this collapse of prices and then one after the other went to new low records. Numbers of them sold at a discount from the initial offering figure of a few weeks before. In one instance this was as much as 80 per cent with a 50 per cent deflation from the quotation during the "free-riding" period of this stock. Others were down from 40 to 50 per cent from prices paid by the public. There was more to this situation even than the shrinkage of the new trading company shares for in connection with their issuance one corporation offered to exchange its stocks for those of a list of about 20 prominent "equities" at fixed prices. In spite of the high average

range of these stocks there were many holders of them who preferred to "bear the ills they had than fly to others that they knew not of," and so kept their Atchison, General Electric, American Telephone and Telegraph, International Harvester, New York Central, Union Pacific, United States Steel, etc. Those who thought they knew a good thing when they saw it, and had made quick and substantial profits with no risk before, exchanged their old shares for new and if the prices of that day and those of two months later of the stocks abandoned and those purchased are compared it will be found that the trade was not as good as it seemed. As a bit of market strategy on the part of the principals it was not a success.

The blind nature of the trading corporations' operations, in so far as the investor in their stocks is concerned, is a feature that removes them from the investment field and often gives them the character of a speculative pool. Another is that their portfolios frequently contain too high a proportion of shares of companies with which their principals are identified and for which they are the "market" in all emergencies. There is also an overlapping and pyramiding of holdings and there has been obvious inflation of the prices of a group or groups of securities on the eve of taking them into and making of them a foundation for the values of some new trading corporation venture. With the unfortunate market experiences recently it is quite likely that this phase of the situation has run out and that the authors of it have been sufficiently chastened not to repeat it.

Interior City Pools

A PHASE of the trading corporation situation that is not so conspicuous as that dealing with their stocks quoted in the New York markets, but fraught with great responsibility on the part of their sponsors, concerns the creating of stock companies in interior cities which specialize either in local securities or are, frankly speaking, of the nature of "blind pools" for buying and selling the general run of stocks. The Buffalo development is an exaggerated form, for it has gone to great lengths in that city. It is duplicated on a smaller scale in other parts of the country that have gone stock mad this year. The outcome is difficult to predict, but that it will involve a prolonged nursing of securities purchased when "double and triple pars" were daily recorded and "blue chips" were the things to buy, I have absolutely no doubt.

As Chain Banking Spreads

JUST as there has been a permanent shift from bonds to common stocks, affecting the proportions of an investment portfolio only as bonds will always be bought by wise investors, so there has developed a permanent demand among investors for guidance and also for a higher return than they have received in the past. This establishes the investment trust firmly as a factor in the business of buying and selling securi-

ties and it has brought into being among the large banks an agency for the same purpose but primarily for their own depositors, in the form of the "uniform trust." And as "chain banking" spreads there is likely to be a steady concentration of the functions of the investment trust in the hands of the banks and with existing trusts in all probability forming alliances with, and acting as, the skilled advisors of the institutions whose chief function is that of lending money.

Sell Trust Service

IN an address before the Mid-Continent Trust Conference at Detroit, H. F. Pelham, vice-president, the Citizens & Southern National Bank of Atlanta, discussed means of making trust service personal to the prospect, in which he said:

Do not try to sell him marble pillars, elaborate bookkeeping systems, annual accounts, national bank examinations. Get the prospect out of his general class quickly—apply to his facts your studied idea of "his plan"—make him realize it is his plan—make him want it. That will make trust service so personal to the prospect that he will feel the confidence that inspired Samuel Judd to write these lines after he had finished reading a newspaper article on the passing of a prominent man, the last line of which contained the sentence, "The ——— Trust Company was appointed Executor and Trustee":—

Take up my burden—hear the challenge roll
From silent men whose throats are stopped with dust;
Who write this postscript in a witnessed scroll
That bears unwritten there—In you I trust!

Carry my burden; you may have no soul,
But by whatever gods are true and just
You'll end my life work in the final goal
Of my ambition, while in peace I rust.

The fading challenge echoes from the past
And willing workmen do their expert part
To serve the voice that ordered at the last—
Carry my burden when I must depart.

So passing men whose names by fate are drawn
May go in faith that someone waits to start
Where they have finished, and will carry on
Without a soul, perhaps—but with a heart!

State Banks

(*Continued from page 464*)

relieving them from taxation or giving them monopolies on interstate transactions, it would be the right and duty of those interested in state banks of the country to defeat such legislation. Congress does not need to pass such laws to maintain the national system.

What is needed is to give the national banker the earnings on his money which has furnished the capital structure of the Federal Reserve System, as well as the deposits in that institution, which are responsible for its profits. This, together with the knowledge of the various banking needs of the different sections of the country and a sympathetic, understanding supervision of the banks in the

system and a recognition of the fact that the banks are not owned by the government but by the stockholders, will, in my judgment, cure all the real evils affecting the growth of the system.

One of the great advantages which the state banks have over the national banks is the fact that the supervision is more personal, more understanding and more sympathetic and cooperative, and the actual banking needs of each individual community better understood. Cooperative, understanding supervision of the state banks of the country has been one of the controlling factors in the growth and development of the state banking system.

State bankers should demand that no unfair state or national legislation be enacted which would be detrimental to the best interests of either system of banking. If Congress does permit nation-wide branch banking the states will have to follow suit and perhaps permit inter-state banking privileges to state institutions.

It should be the policy of state supervisors to raise the standards of bank management and eliminate inexpertness of bank administration; and to resolve to place the profession upon a plane of maximum service, increased efficiency and greater profits. In granting charters it must be remembered that banks do not make business; but business makes banks. The size of the bank is not of first importance, but rather its solvency, and the success of many small banks under the supervision of each state proves that correct management principles will bring profitable results.

There are forty-eight supervising units of the state banking system of America, and to my mind one of the greatest accomplishments that supervisors could bring about would be to devise some practical method of having more uniform and standardized state banking laws passed by the several state legislatures.

One of the greatest advantages of the national system is its uniformity, and if the uniformity of the state systems could be increased, leaving latitude to meet local needs, much would be accomplished to place the state banks in a more favorable position to transact inter-state business or business of nation-wide character.

War Debts

(*Continued from page* 475)

If there is a French product, like wheat, for which the demand is highly inelastic, and if, as a result of reparation payments, German wheat began to flood French markets, the French wheat growers would suffer. But, it is to be remembered that the German wheat would be bought by French people with money supplied by the German Government. The French consumers would save their own money which they had formerly spent for wheat. The money saved would be available for the purchase of increased quantities of other things. Having more money with which to buy other things would increase the demand for other things. Quantitatively, French producers as a whole would gain as much as they would lose, except for the general disturbance which results from any shifting of demand.

A Free Gift From the Sun

WHETHER the payments in money or goods came to France as reparations or as free gifts would not affect the economic results on French industry. If the German people should make the French people a free gift of a large quantity of German products, the effect on French industry would be the same as though they were exacted as reparation. The French consumers would have all their spending money with which to buy other things. They would merely consume as much more as the Germans' gift amounted to. Of course, if we assume that the French people are already consuming up to the limit of their capacity it would be a different story. In that case, the receipt of German goods, either as gifts or reparations, would reduce the demand for home products by just as much as the German goods received.

The suggestion of a free gift of goods from another country recalls Bastiat's famous Petition of the Manufacturers of Candles, Wax-lights, Lamps, Candlesticks, Street Lamps, Snuffers, Extinguishers, and of the Producers of Oil,

Tallow, Resin, Alcohol, and, Generally of Everything connected with Lighting.

These worthies, according to Bastiat's story, reminded the Chamber of Deputies that they were suffering because of the free gift of a great utility, namely light, from a foreign body, namely the sun. This free gift from the outside, they argued, was cutting down their business and making it impossible for them to operate at a profit. If a heavy tax could be put on windows and other avenues for the importation of cheap light, all their industries would expand, and they would, in turn, have more money with which to buy the products of other industries. Thus prosperity, now limited because of the accession of a free goods, would increase and diffuse itself among all producers.

Objections to the receipt of foreign goods, even when foreigners furnish us the money with which to buy them, rests on the same kind of reasoning as that famous petition.

Deprivation By Taxation

NO matter what the technical process of having a transfer of purchasing power from Germany to France and no matter what use the French government makes of the purchasing power received, the results will be very much the same as those we have described already.

Take a somewhat less simple case than those already used by way of illustration. Let us assume that the French government uses the increased purchasing power received in reparation payments for internal improvements. It would then spend a great deal of money hiring labor and buying materials for road building, reclamation of waste lands, popular education and other constructive enterprises. A great deal of money would be put in circulation, resulting in increased purchasing by the French people. This increased purchasing would, in turn, tend to raise prices, and this would attract sellers from foreign countries.

As in the above illustration, the depletion of German supplies of money, the deprivation by taxation of the spending money of the German people, would reduce the amount of purchasing in Germany and would tend to reduce the prices. The international flow of purchasing power in goods would be the same in this as in the other case. A good many German goods would have to flow into France as the result of this. Nevertheless, the sum total of demand for French goods need not be reduced in the slightest degree.

ALL that has been said about reparation payments will apply equally well to the payment of war debts. If we receive large quantities of purchasing power in the form of money or credit from other countries, we must of course expect to receive increasing quantities of foreign goods. Their economic effects would be the same as though they were made as free gifts from these foreign countries; that is, they would furnish us with extra spending money with which to buy the increased quantity of foreign goods. We would have all our own spending money for the purchase of other goods.

There need be no decrease whatever in the demand for American products. The shifting of demands would of course present a serious problem. Those industries in which we have an advantage over foreign countries would be expanded. Those in which we are at a disadvantage would be contracted. That is, our extra spending money would normally be spent for those foreign goods in which the foreign producer has an advantage over us. This would leave us to spend all our own money, that is our normal incomes, for goods in whose production we had an advantage.

If, for example, we had to buy potash, nitrogen, and a number of other such products with the extra spending money furnished us by foreign countries, we would have all our own normal incomes left with which to buy more or better automobiles, more or better refrigerators, electric washing machines, etc. Some industries would gain while others would lose. That might be a disadvantage or an advantage, according to one's point of view. The main point is, and this is an absolute certainty, there would be no reduction in the total demand for American goods.

Problem of the Bank-Owned Farm

(*Continued from page* 448)

The activities of the central office may be compared to the functions performed by the general staff of an army. While coordinating efforts, supervising and directing operations, and originating and carrying out development programs, it leaves to the district managers or "generals in the field" as much freedom of movement as possible.

Leased Wherever Possible

WHEREVER possible, farms are leased instead of operated; for, in spite of the economies of wholesale operation, it is found that it is more profitable to lease than to operate. Orchards and vineyards, however, are rarely leased owing to the danger of the tenant's ruination of the farm by improper pruning and culture. This, he will sometimes deliberately do because of the short period of his tenancy; he will prune for the maximum yield of a single crop, not caring what will happen to the yield in subsequent years. But no matter what crop the tenant may grow, it is necessary to maintain superintendence in order that proper farming methods will be followed and maximum returns received.

Detail cost accounting of each operation is not maintained because of its cost; the farms are already owned so knowledge of each individual operation will not void expenditures; they have to be made anyhow. A careful record is made, however, of the gross operating charges, taxes, capital expenditures and income from each property.

Control of operating costs is maintained by comparison with previous years and particularly by budgeting. Not only is income budgeted in advance of the crop season but proposed operating and capital expenditure budgets for each farm are prepared by the district managers. These expenditures must be authorized by head office administration before their contraction. During the year frequent contact with the field forces and properties is made by the head office for the purpose of determining policies and practices on the ground wherever necessary.

Many Purposes Realized

IT is perhaps too early as yet to say just what the final result will be. It is apparent, however, that many of the purposes of the organization are already being realized. Control has been simplified; competition in the disposal of properties has been eliminated; economies of operation have been effected by distributing costs over wider areas; individual yields on farms have been increased by the application of better methods of farming than those in force prior to foreclosure. In the latter particular, some vineyards which, under their farmer owners, only produced a half ton of raisins per acre—a confiscatory yield—have been made to produce three tons, a highly satisfactory return. In numerous other instances, operating costs of individual farms have been materially reduced from those in effect before foreclosure.

The plan of organization and operation outlined above is readily adaptable to other sections of the country, even where a large number of banks hold but a few pieces of property each. By pooling their interests with other banks, economies can be effected and bankers relieved of the annoyance of looking after farming operations when they should be engaged in their proper tasks, lending money and obtaining deposits. By turning their real estate owned over to an auxiliary, they can clear their bank of such improper assets and safeguard depositors' interests thereby.

Land Company May Prevent Failure

THE land company is able to be of considerable service in another direction; it can be used to prevent failure and foreclosure. This it does by having its farm experts call upon the mortgagor in difficulty and point out to him better methods of farm practice; they also keep track of his progress in following their suggestions. As a result, they are often able to turn an incipient failure into successful liquidation of the mortgage, with retention of the farm by its owner.

A possible objection to the plan might be the difficulty of inducing stockholders to put up the additional funds necessary

to take the real estate out of the bank and turn it over to the auxiliary. The national bank law and the laws of most states, however, require that forfeited real estate shall be removed as an asset within five years from the time of acquirement; that necessitates that it shall either be sold or its value charged to undivided profits by the expiration of that time. Should that account be insufficient to care for the value of the holdings, an auxiliary corporation is about the only way out of the difficulty. Furthermore, it is desirable to remove real estate completely as a bank asset in some states; for their laws provide that, after the expiration of the five year period any citizen may bring an action and compel the sale of a bank owned property to the highest bidder at public sale. This high handed action may not happen very often but if undertaken at all, the bank or some of its officials would be forced to bid to protect itself from loss.

Another objection may lie in the desire of the bank to retain complete control of its properties for purposes of sale. If they are comparatively few in number, this objection is well taken; it is not very difficult to manage or dispose of but one or two farms and selling them individually would be impossible after their identity of ownership is lost in the pooling organization of a group of banks. On the other hand, if a number of farms are owned, their sale en masse is almost impossible of accomplishment; furthermore their management by a large holding company is more economical and far less troublesome.

The Future Form of Farm Enterprise

A CONSEQUENCE of the formation of the land company has been the development of the suggestion that, in its idea, it may be the tottering steps of the infant plan of corporate ownership and management of farm properties on a large scale, thought by some to be the future form of farm enterprise. Being affiliated with banks, that is not a contingency here for this particular organization necessarily has no permanent future; it was formed to dispose of lands, not to hold them. But it would be an interesting experiment if a selected group of farms were placed under the control of some other adequately financed and properly planned corporation to see if the plan has real merit. At present it must be admitted that it is only a theoretical dream of an unknown Utopia.

The test of its success would lie in two directions, one economic and one social. First it would have to pay better than the average business activity or capital would not flow into it; if it did not pay the movement would not get beyond the attempt of the experimenting theorists. But dangerous as prophecy is, I would like to hazard the guess that that is as far as it would get. There is, in my opinion, no compensating economy derived from wholesale farm operation which would exceed the economy derived from the unrequited labor of a farmer and his family. The hired farm hand works by the town whistle; the farm owner by and beyond the sun. The farmer not only does but he does without—as no non-owning employee ever will.

Of course the answer to that is to so organize the enterprise that the farm corporation laborer will share in profits and ownership. But right here the social complex enters. Many people engage in farming as much for a home of their own as for the opportunity to farm at a profit. Such people are intensely individualistic and wish to own their home without let or hindrance from anyone else. They would not take kindly to a communal proposition no matter how Utopian or profitable. A sufficient number of those who would be so disposed might be found, it is true; but even then I fear that the very democracy of the plan would result in its undoing. Democracies are all right as long as they are democracies in name but not in fact; it takes a strong hand to make them function properly in business matters and farming for profit is a business.

Two Lessons From the Last Decade

FINALLY, what have we learned as bankers in the farmer-banker debacle of the past ten years? It is over now, thank fortune, but as the dawn of a new day rises the lessons of the dark days must not be forgotten nor their message lost to the bankers of the future. First

of all, I think most of the bankers who have clamored so vociferously for permission to make mortgage loans from commercial deposits, on the theory that a first mortgage loan is the safest and best asset a bank can have, have learned the lesson that such a loan is not sufficiently liquid for commercial funds nor is it always the safest.

Secondly, wherever perennial crops are grown, it should always be remembered when a mortgage is originally made that the margin of security over and above the face of the loan will greatly diminish and even disappear if foreclosure is its fate. The farm's market value drops considerably because of neglect by the owner; its production falls off and its permanent improvements, both of crops and of buildings, require a considerable outlay before appearances, productivity and marketability may be restored. Reduced to a theoretical formula, I would say that, in case of foreclosure, of such a once highly improved farm, the lender will find that he has in reality loaned nearly twice the amount he originally put forth.

Another thing to remember is a fact well known to bankers that the public sets a much lower value on a piece of farm property after it is once owned by the bank than when owned by the mortgagor. Part of this attitude may perhaps be due to the old hostility to the money lender, which decrees that Shylock shall not profit by taking his pound of flesh; the bank is looked upon as a despoiler of the mortgagor, when perhaps just the opposite is true. Nine hundred and ninety-nine cases out of a thousand a bank only forecloses when every other extremity has been exhausted. But even if antipathy to the money lender should not be the cause of the attitude, the public knows that a failure has occurred on the bank-owned farm and, without further investigation, is inclined to put the blame on the quality of the farm, when the disaster may have been due to the personal failure of the farmer and nothing else.

The last thing to remember lies not within the realm of business or economics but in our consciousness that nearly every farm mortgage foreclosure is a human tragedy. For foreclosure not only destroys the farmer's equity in his property, which is sometimes his all, the result of a lifetime of toil and niggardly self denial both on his part and on the part of his family, but it also takes away something often more precious, the family home.

Letters to Branch Managers

(*Continued from page* 458)

by leaps and bounds. It has been decided that it is to the advantage of the institution and also that it will be a great assistance to the managers, if, until further notice, all applications for loans exceeding $300 be submitted to the directors through the head office for their approval."

Not a Missionary Agency

"JULY 5, 1918—Prospects for crop through the larger part of our territory are none too good in fact, part of it is poor. We have been loaning quite freely in small amounts but even this kind of loaning, coupled with the withdrawal of deposits, is running our reserves down to a point where it is unwise to go much lower unless we are absolutely certain of a fair crop. After taking everything into consideration, it has been decided that the wisest thing to do is to ask the managers not to make any more loans except very small ones, say $50 to $75, without first sending the application to head office. A little later on, if conditions change, of course, this rule will be withdrawn but we must first know that we are going to get at least an average crop before we begin to loan as freely as we have in the past."

"JULY 10, 1918—One of our managers has written in asking what policy we will maintain re the advance of money for coal at this time of the year, stating that the grain growers are shipping in coal to supply the farmers. Of course, in this case as in all others, the grain growers do a strictly cash business and expect someone else to take the risk, but you will find our policy in this matter fully outlined in letter which is quoted below:

" 'We know just what the coal situation is and have had the matter brought to our attention from several points. First let me state that a bank is not a missionary organization to the extent

that it is supposed to make contributions to people who are not entitled to credit for the purpose of buying coal or any other necessary commodity. A man whose credit is not good for other things is not entitled to money with which to buy coal. If parties in the territory are destitute, or not entitled to credit on a credit basis, it will be up to the municipality or some part of the government to keep these people from freezing to death. The bank certainly is not supposed to step in and do this class of work.

"'I realize that a great many of the smaller farmers do not need $50 to $75 to buy what coal they would stock at this time of the year, and it is not expected that you loan people even this amount unless they are entitled to it without a question.'

"Unless we get more rain, the condition as to crop situation is not bright, and although it is disagreeable to refuse people credit, which, ordinarily, we should be glad to grant, still the good of the community is best served by keeping people from borrowing money under such conditions. It is surprising how little money a man can get along with when he has to. We have seen such times before, and we know what tactics best serve the community, the customer and the bank."

Can Always Make a Living

"SEPTEMBER 5, 1918 — The grain moving season is again just upon us. I hope that with good weather, grain will move very rapidly and the threshing season will be very short, so that our collection season will come earlier than usual. One of the outstanding features of this year's business at most branches has been the large increase in bills receivable and the big decrease in deposits. You can easily see the burden which this has thrown upon the head office, and now the burden must be shifted to the branches again, and the managers must see to it that we are paid up.

"We must not think too much of profits this year but keep the safety first idea in mind, and the only way to play the safe game is to get our money while the farmer has some to pay us. Speculation of every kind must be discouraged, and if a man has no money to invest, he should not be encouraged to borrow money for investment.

"The happy man, when the war is over, will be the man who owns what property he has free of encumbrance and on account of this is in an independent condition. No matter what happens a man without debts and with a reasonable amount of property which is productive will be independent after war conditions, to a large extent. The farmer who has a half section paid for and stock and implements enough to work it can always make a living, but the man with a section or two heavily encumbered making a large property statement out of equities, later on may be covered with judgments so deep that he will never get out. You are doing your customer a favor to insist on his getting out of debt and keeping out of debt until after the re-adjustment."

"NOVEMBER 2, 1918—You have not received a collection letter since the one I wrote opening the campaign this fall. Conditions have been different from any other fall. Shortage of help at first kept people from bringing grain to market and then the influenza came to stop business in general.

"Our collections are just about thirty days behind what they were a year ago. A few branches have made splendid reductions but they are the exception. Bills receivable almost invariably are higher than last year and deposits as a rule are lower. I feel confident that this situation will be righted as soon as the epidemic is over and the fall work completed. As long as we know that the wheat is in the country it does not matter so much but if it is getting away and we are not getting the proceeds, that is quite different."

This is the third of a series of extracts from letters to branch managers written over a period of twenty years by H. O. Powell, general manager of the Weyburn Security Bank, Weyburn, Saskatchewan, Canada.

The Myth of Tax Reduction

(Continued from page 468)

the measure of relief granted individuals by the present rates from the terrific rates of wartime.

Individual income tax collections are 97 per cent of what they were at the height of the World War—six months before the Armistice was signed.

Any reduction there? Yes, three per cent in eleven years.

As we let that fact sink in, let's go back to 1923, the year before the first of the peace-time tax cuts, and look at the tax rolls.

In that year, 7,698,000 men and women paid income taxes of $663,000,000.

In 1929, 2,500,000 men and women paid income taxes of $1,095,000,000.

The number of taxpayers has been reduced by more than two-thirds, but the total amount collected has increased by almost two-fifths.

Put it another way: the average income tax payment in 1923 was about $86; in 1929, it was $438—an average increase of more than 400 per cent.

Plus the Small-Fry

HOW was this somewhat startling condition brought about? The answer is perfectly plain: the government has quit bothering about the small-fry taxpayers and is getting its taxes from men and women of relatively large incomes. And notwithstanding the lower rates, it is collecting more from that class, by 40 per cent, than it collected from that class, plus the small-fry, in 1923.

Obviously, during the reduction process the income tax has become class legislation with the class shriveled to one-third of its former dimensions. Two and one-half million men and women and 250,000 corporations, a total of 2,750,000 taxpayers, are now bearing the whole burden. In 1923, the burden bearers numbered nearly 8,000,000.

And during the six-year period, income tax collections have risen $650,000,000, or 40 per cent.

One goes to Secretary Mellon for explanation of this paradoxical showing anent tax reduction and finds the following in his 1928 report:

Three Groups of Taxes

"THE changes in federal taxation since the war may be briefly appraised by the amount of total tax reduction in dollars and cents and by the character of the remaining tax system.

"A very rough measure of the reduction under each revision is a comparison of the receipts during the last twelve months under the old Act with what might have been collected had the new Act been effective for that year. Such estimates of recurring reductions under the respective revenue Acts were:

Revenue Act of 1921....	$663,000,000
Revenue Act of 1924....	519,000,000
Revenue Act of 1926....	422,000,000
Revenue Act of 1928....	222,000,000

"During this period of tax reduction, however, there has been a large increase in the taxable resources, due to the normal growth of the country and to the remarkable prosperity.

"Had these estimates been made on the basis of the later and larger taxable resources the recurring reductions shown would be considerably larger. As a result of tax revisions since the war, the internal revenue system consists primarily of three groups of taxes: the income tax on corporations, the graduated income tax on individuals and the tax on various tobacco products.

"These three sources produce approximately 95 per cent of the internal revenue * * *. The remainder of the internal revenue comes from a number of taxes, each of which produces a comparatively small amounts. * * *."

Tariff Not Included

THE tariff, it will be noted, is not included in Mr. Mellon's classification. It is the fourth main source of government revenue. Under the 1922 rates, it produces about $600,000,000 a year in duties, but this revenue is so closely coupled with the national policy of pro-

tection that it is never made a part of any tax-revision program. Essentially, the tariff is not regarded as a tax, but a protective impost.

Thus the three main prospects for the next tax cut concern:

Individual income taxes.
Corporation income taxes.
Taxes on tobacco.

During the great bull stock market of last year an American millionaire stopped off in New York for a day on his way from Canada to Florida. He dropped in on his broker at noon and the broker urged him to buy a certain stock. The millionaire bought 10,000 shares.

Shortly thereafter they went out to luncheon. They dawdled a bit over their coffee cups, returning to the broker's office at 2 o'clock. The millionaire's newly bought stock had gone up somewhat more than $4 a share during their luncheon.

Forty thousand dollars profit over the luncheon hour was good enough for the millionaire. He sold; and walked out of the broker's office, $40,000 richer.

Out of that $40,000, the Federal Treasury collected one-fourth, or $10,000, in income tax.

Traced to the Stock Market

THAT sort of thing multiplied—on a smaller scale, perhaps—thousands of times during the protracted bull market, helped swell the government's income tax collections to the bloated proportions disclosed in the 1929 individual returns.

Tens, possibly hundreds, of millions of dollars in income taxes collected from individuals during the past few years can be traced to the stock market. Between a lively stock market and a big income tax total, there is an intimate relation. Conversely, an extended slump in securities undoubtedly would lower the government's individual tax collections by many millions.

One-fourth of the profits is a considerable rake-off, but the government apparently has felt in the past that it could not take the chance of jeopardizing its funds by lowering the rates.

To what point could the maximum rate be safely lowered? Mr. Mellon has said that the 25 per cent maximum might fail to yield the greatest possible revenue to the Treasury and that a maximum of 15 per cent might be too low. For several years, however, he has been veering closer to the 15 per cent maximum as the figure at which the government would collect its greatest tax from individuals.

Limit Is Not Low Enough

IF that were true, and if the 15 per cent maximum should be agreed on, the rate would be lowered again, but the amount of taxes collected would rise.

At what rate, to carry the simile further, would the widow's cruse of oil fail of replenishment?

Nobody knows; and because nobody knows, and because, apparently, the present limit is not low enough, it would appear that any further reduction in individual income tax rates would simply lower the rates and repeat the process of increasing the total tax collected. Any conservative reduction, that is.

So lowering the individual rates would seem to hold no promise of cutting the total collected. Thus one main source of revenue is out of the picture when a reduction in taxes collected is to be considered.

That leaves the other two sources: corporation income taxes and the tax on tobacco.

Any real cut in the total tax collected from the American people apparently will have to come from one of those two main sources.

In the case of corporations, a cut in the rate, the experience of 1928 shows, would mean a cut in the revenue collected. Less money would flow into the Treasury; and the flow would not increase until business increased and profits expanded.

For a long time the corporations have been standing on the sidelines, waiting for a cut. They were not at all satisfied with the cut to 12 per cent in 1928. Led by their business organizations, the corporations were somewhat inclined to see red because of what they considered the smallness of the reduction.

They have been wanting a 10 per cent rate since 1925. They worked for it in 1926 and again in 1928. They want at

least that much of a cut next time.

What would it mean to the Treasury? Each one per cent of the corporation tax pours, in round figures, $100,000,000 a year into the Treasury. A cut from the present 12 per cent rate to 10 would mean a cut of 2 per cent, or, roughly, $200,000,000.

Perhaps Lower Prices

AND a real cut it would be, if the 1928 figures mean anything. A diversion of $200,000,000 a year from the Treasury to the stockholders of American corporations in the form of dividends. There are about 3,000,000 stockholders, it is estimated, who would share in the cut through larger dividends.

Or, if not bigger dividends, lower prices—a bit lower here and there—on what the corporations sell. Some of the leaders in the fight to lower corporation rates argue that a lower rate means lower prices on what the corporations produce. They may be right; but the present tax, being levied on corporate profits and not on anything else, is not tied up directly with prices.

Whether such a reduction would lower the cost of living is problematical, according to all indications. But apparently it is reasonably certain that such a cut would really reduce the sum collected by the government.

A Hidden Tax

THE third main levy, the tobacco tax, is a hidden tax. Hidden, that is, from the man who buys over the counter and pays it. The purchaser pays it all right, but only the occasional purchaser realizes it at the time.

On a 15-cent package of cigarettes, for instance, the tax amounts to six cents. That goes to the government; the other nine cents are divided among the producers and various sellers.

It's a heavy tax. In 1929 it amounted to nearly $435,000,000. In 1922 it was about $271,000,000. In seven years it has increased almost two-thirds, thanks to the great increase in the use of tobacco, no small part of which is ascribed to the more general habit of smoking among women.

But the public has become thoroughly accustomed to paying this hidden tax and thus far there has been no widespread agitation for lessening it. Any reduction in the tobacco rates should result in lower prices of cigarettes, cigars and other tobacco products. It also would result in a corresponding lessening of tax collections by the treasury, on the current volume of business.

OF course, there are other taxes, but they are relatively small. The tax on club dues, for instance, and on theater tickets selling for more than $3 and on tickets to prize fights. And the estate tax, levied by the Federal government and remitted, in part, to the States.

But these are minor levies. The main reduction in revenue, if any, would have to come, as Mr. Mellon asserts, from one of the three main sources of revenue.

One of those sources, as we have seen, the individual income tax, appears to be out of the running, so far as lessening the amount of taxes is concerned. That leaves but two—the corporation taxes and the tobacco taxes.

And there we are. It seems to come down to a simple question:

Does the government intend merely to lower rates? Or does it intend to reduce the amount of taxes collected from the American people, now near the level of the taxes collected on 1919 income?

British Banks Go Into Business

(*Continued from page* 472)

ing along right lines. Thus the banker exercises a measure of control over the activities of the producers.

In this unusual form of organization in the cotton industry it is obvious that with several companies entering into the manufacture of cotton textiles each must maintain its own board of directors. Such boards in the Lancashire area are large, as a rule, with twelve, fifteen, eighteen, or even more members. Each is paid a director's fee of about £100 per annum, although on occasion the fee may be much larger, and one such director may serve on several boards of companies engaged in the separate steps of cotton manufacture. Thus if the board is large, the overhead on this item alone is heavy for the company concerned, and for the industry as a whole with this multiplication of boards, plus the cost of maintaining separate offices with separate managerial and clerical staffs, the burden of overhead is exceptionally heavy.

These factors have been largely re-

sponsible for the fact that, in spite of operating losses from year to year, several unprofitable or economically unsound companies have continued to operate. The boards of directors are reluctant to vote themselves out of existence, thereby cutting off their salaries or directors' fees, and many managers of such plants have also preferred to stay with the "sinking ship" and draw their salaries, even at the expense of the loan holders and the shareholders. Hence many of such companies have gone on until the debts piled up by their boards and managers have greatly exceeded the total value of the assets of such companies.

Under such a system credits which have been granted by the banks as genuine operating credits have become "frozen," and as certain of the firms reached a state of bankruptcy, thousands of pounds of such debts have had to be wiped off by the banks which operate in this area. The bankers reached the position, therefore, where as one of their number facetiously expressed it, they want no more "Kathleen Mavourneen loans on their books—it may be for years and it may be forever." They do not want to lock up their resources for an indefinite period in such a manner, although many of such banks have, by one means or another, been more or less forced to do so during recent years.

The extent to which British banks have been involved in the financing of the cotton industry may be judged by the fact that, of all the advances to customers by the Midland Bank—the largest of the British "Big Five" joint stock banks, at least 12¼ per cent, or the highest percentage for any one industry, represents the advances by this bank to the textile industry, as revealed by an analysis of the advances of this bank given by its chairman at the last annual meeting. The total advances to customers by this bank at that time amounted to over £200,000,000 sterling —$1,000,000,000—of which over 20 per cent of the total went to two of Britain's depressed industries—textiles and iron and steel. This bank undoubtedly had also had to eliminate many of such advances or loans from its books as bad debts during the past several years, although probably not to so large an extent as was the case with the banks with their head offices at Manchester and Liverpool.

Methods of Bank Pressure

IN view of such conditions as these outlined above the banks of the United Kingdom have, during recent years, begun to insist that before any more advances may be made to the cotton textile industry, reforms must be made in various matters. Unduly large boards of directors must be greatly reduced in number—from fifteen or eighteen to five or six or less. Exceptional director's fees shall not, for the most part, be paid to such directors, thus eliminating or curtailing one item of heavy overhead expense, and making it less possible for companies to continue operating on an unprofitable basis simply because of the "vested interests" of the directors and managers.

Furthermore, as early as 1925 or 1926 bankers began to urge the necessity of the elimination of the unproductive plants, as well as some sort of vertical combination or amalgamation within the industry whereby the six or seven steps in the process of cotton manufacture might be carried on by one company, with one set of directors and one set of managers, instead of as at present. Such a measure would greatly cut down operating expenses and tend to eliminate as well certain features of harmful competition. This latter end was also aimed at by the banks in their insistence that horizontal combinations as well should be made of competing firms, in order to do away with unnecessary competition and unwise and harmful merchandising methods, if the industry as a whole was to continue to receive the financial support from the banks which it needed.

At Rock-Bottom Cost

BY the end of the disastrous year, 1928, most companies in this industry had begun to recognize the merits of the banks' position, and considerable reorganization began to take place. Many boards of directors were cut to small numbers, and both vertical and horizontal combinations within the industry began to take shape. But it was found that if such amalgamations or reorganizations were to be successful,

or if they were even to be launched, further bank assistance would be needed. The banks as the principal creditors of the cotton mills were called upon to advise such companies as to the form of reorganization that would be acceptable to the creditors, and as a result, certain of the recent combinations have come about.

The Eastern Textile Association which was recently formed of companies interested in the Far Eastern trade, may be described as a loose vertical combine, that is, without financial merger, which is an association of firms engaged in the manufacturing, finishing and export of staple lines of cotton piece-goods for Far Eastern markets. Thus all of the processes of cotton manufacture may be carried on within the association at rock-bottom cost on a mass production basis, by distributing the work among members of the association.

Stepped into the Breach

THE Lancashire Cotton Corporation, Limited, on the other hand, has been formed for the purpose of combining individual spinning companies which have been in competition with one another, by acquiring by purchase or exchange of shares the business of these companies. To make such amalgamations possible the banks, as the principal creditors of the old firms, were called upon to assist by taking income debentures in place of the outstanding loans or credits in various forms. Fixed assets under such schemes are valued on a reasonably low basis, and 5½ per cent income debentures have been issued to shareholders, or, where debts exceed the value of the assets, to secured creditors, up to half the value of the fixed and floating assets.

When at one time it appeared that the whole negotiations for such mergers might fall through, due to the failure of the banks concerned to reach an agreement, it was reported that the Bank of England stepped into the breach and made possible the consummation of these plans. The Bank of England also apparently agreed to meet the temporary needs of the Lancashire Corporation, while at the same time advising this new combination during the latter stages of its reorganization.

Thus the banks by the insistence upon the need for reform and reorganization, were largely responsible for starting the movement toward such drastic and far-reaching reorganizations as have taken place. By their advice during the process of negotiations they helped to shape the type of amalgamation which would be acceptable to themselves and to the industry. And finally, by their willingness to accept the interest-bearing debentures of these reorganized companies in place of the unpaid advances and overdrafts of these concerns, they made possible the completion of such reorganization measures.

Better Returns from Tobacco

(Continued from page 455)

of the farmers and to teach their use has been one of the chief activities in the new work. Experimental and demonstration grading services, offered cooperatively by the government and the state on the auction floors in important markets in Virginia, North Carolina, South Carolina, Kentucky, and Tennessee, have won the approval of both growers and large commercial tobacco-buying interests. Farmers, representatives of large firms, and representatives of the Japanese Tobacco Monopoly have been among those who have studied the official graders in action.

Grading Service Helpful

ESTABLISHMENT of the service at Lake City, South Carolina, was made possible by the fact that local business men, including a local banker, subscribed part of the necessary funds. A small fee is charged for grading but it is not expected that the projects will be self-supporting the first year. The price of tobacco graded at Lake City has consistently averaged higher than that of ungraded tobacco, and while this increase may not be wholly attributable to the grading, it is generally recognized that

the grading service has been a helpful influence.

Many of the farmers who have had their tobacco graded before sale have watched the graders closely, listened carefully to the explanations, and have immediately proceeded to arrange the remainder of their tobacco by grade before placing it on the market. Under the new market inspection procedure, tobacco delivered to an auction warehouse for sale is examined by a licensed grader, the sales ticket is marked to show the grade determined, and this grade is announced by the warehouseman or auctioneer when the tobacco is offered for sale. The farmer knows the quality of his tobacco before sale and the buyer has the grader's careful judgment of quality as a check against his own more hastily-formed opinion. One important effect of this is to reduce the fluctuations in prices paid to growers resulting from errors in judgment, varying light conditions in the warehouse and other conditions. Warehousemen benefit because the grade mark, in conjunction with the analysis of previous sales prices by grades affords a basis for making opening bids. There are fewer dissatisfied farmers and, in case of dissatisfaction, there is now available this impartial basis for adjustment.

Six Classes

SHORT courses in grading tobacco which have been conducted by the graders at some of the agricultural colleges in tobacco states have been attended by such diverse groups as farmers, tobacco buyers, representatives of fertilizer firms, county agents, college students, and members of the faculty. Special effort is made to secure the attendance of farmers and at the school in North Carolina the farmers constituted more than half the number.

International interest in the standardized type classifications of American tobacco is indicated by requests received by the Department of Agriculture from foreign tobacco importers for copies of the classification. Canadian officials have indicated a desire to develop tobacco classifications along the lines of the American system, and it is understood that a movement is under way for similar action on the part of certain South American countries. Representatives from Japan are interested. International use of the classifications will undoubtedly stimulate foreign trade in American tobocco.

American tobacco is so varied in character that it was necessary for the Department to divide American-grown tobacco into six classes which include Flue-cured, Fire-cured, Air-cured, Cigar Filler, Cigar Binder, and Cigar Wrapper tobacco. Each class is subdivided into from four to six types, which in turn are subdivided into grades.

ANOTHER advantage of the new procedure in grading and inspecting before sale is that the average prices by grades are posted at the auction warehouse at the close of each week. Heretofore, as a rule, large sales of tobacco have usually been effected through private methods so that information about prices has always been very meager. The only prices available for study have been the general prices received by farmers. These were largely based upon the average price received for all qualities of tobacco so that it was not practicable to compile prices by grades. This lack of price information has hindered earlier studies. Immediately, new studies are being planned of factors that affect the prices of certain types of tobacco.

Without a clear picture of just what leaf tobacco is available and where, by quantities and by types, any factor in the tobacco business is at a disadvantage. The quarterly reports on the stocks of leaf tobacco in the hands of dealers and manufacturers yield facts of vital importance to all phases of the industry. To make this information more useful, these reports will soon be published in additional detail, showing the amounts by groups of grades. The effect will be to separate stocks of leaf tobacco into the amounts available for different manufacturing purposes.

With these new lines of basic information now available, the Department of Agriculture plans to develop gradually a rather broad program of statistical and economic research regarding the tobacco-production industry and to keep the farmers and others closely informed as to the present situation of the crop, the market, and the prospects for the immediate future.

The Country Bank and the Chain Store Account

(*Continued from page* 457)

of these banks are carrying but one or two chain store accounts and that the scarcity may be attributed to cost analyses made by the bank in question. In the aggregate, seventy chain store accounts were definitely catalogued. Of these twenty-five accounts are in Class 1; twelve in Class 2; eighteen in Class 3; and fifteen in Class 4. In other words, thirty-six per cent of the accounts are considered very satisfactory; seventeen per cent fairly satisfactory; twenty-six per cent unsatisfactory; and twenty-one per cent very unsatisfactory.

The bankers addressed were invited to make any comment regarding their experience with chain store accounts. A few of the replies are quoted as follows:

"The greatest trouble with chain store accounts is due to the banker fearing the possibility of losing the business. What is needed on the part of the banks is more frankness in dealing with the management of chain stores. We consider that the accounts we have are carried in a satisfactory manner, but we believe it is because we have dealt very frankly with them on the subject from the day they opened relations with us."

"You will notice that our records do not show very satisfactory average balances maintained by chain store organizations, but we are gradually having this average stepped up to our requirements as their business increases."

"We have two chain store accounts on our books and both keep a very satisfactory balance running into four figures. With one of these accounts, withdrawals are made from four to six times a week and with the other about once a week."

"In our bank we have fifteen so-called chain store accounts. Six maintain good balances, six have fair balances and three have small balances. Six draw even amounts once a week; five draw the previous week's deposits about the middle of the week following; and five make as high as three withdrawals a week, which accounts for the small balances maintained. Taken all in all, the accounts have been satisfactory to us."

"We are not altogether satisfied with any of the chain store accounts we have."

"It has always seemed to me that the average chain store tries to get the last cent out of its local bank account connection and we are not particularly enthusiastic about this class of account."

"We are favored with the local account of the Blank Chain Store and find that they transfer in round amounts on an average of twice a week, leaving a generous balance on which we pay interest at three per cent per annum."

Average Is Undesirable

"THERE is no question but that the average chain store account is undesirable. One of our local banks has a messenger collect deposits from a local chain each Saturday evening. I do not know about the balance, if any, carried with the bank."

"While the chain store offers some advantages, there are of course many disadvantages from the local viewpoint. But it looks as though the chain store business has come to stay and it is up to the local bankers—provided we are not swallowed up by chain banks—to insist that the banking business of the chain store be handled in such a manner that there is a profit to the bank."

"In analyzing the account of the Blank Chain Store from the first of this month, I find that while their account showed a balance of $1,300 on the last day of the month, they had a check in transit on that date for $1,000, which was received by us for payment on the fourth instant. They issued another check for $1,000 on the sixth when our books showed a balance of $1,300. This check reached us on the ninth and reduced the balance to $1,000. On the seventh they had put out another check for $500 which would have reduced their balance practically to zero, had the check been presented direct to us on that date."

"I am glad to say that we are not much bothered with chain store accounts. We have a competitor who pays 2 per cent interest on checking accounts. He catches the bulk of the chain stores. His president recently stated that their commercial department is not making any money. Possibly it is because of this. We do not invite any of these accounts, make no effort to get them, do not want them, and are glad when they go some place else."

Is There An Answer?

AS above suggested, chain store accounts are not of large consequence in the mind of the local banker. Experience has taught him that their liquid funds are marshalled as quickly as possible and that very little more than an irreducible minimum can be expected to remain on deposit with him.

Sound management of the country bank nowadays compels careful study of all details found in the daily routine. Building up the profit-making element in business transactions is no less essential for the bank than for the chain store. The results of constant analyses are being applied to-day in ways that were not thought of until recently. Nor

until recently was it necessary that they be so closely applied. It is becoming increasingly difficult therefore for the business account to obtain banking service for which the bank is not fairly compensated. Chain store accounts are properly being placed in the same category as local business accounts and there is certainly no injustice in requiring them to meet such conditions as are applied generally by a given bank in its field.

Both by observation and by experience in his home town, the country banker is convinced that many of the larger issues in the chain store system of merchandising, have yet to be met by those charged with managerial responsibilities. Evidence is abroad that their pencils are kept well-sharpened, with no dearth yet in new chain-store branches being established on every hand. It is increasingly important for the banker to see to it that the pencil-sharpening be not done at his expense. He has grown a bit tired of those particular chain store systems which deliberately and continuously hamstring him and play a will-o'-the-wisp game with his profit and loss account.

In proportion as the country banker becomes more business-like, he will stand squarely for that which is due his bank in line with sound business principles. He will also join hands with his other home-town bankers in establishing mutually helpful standards on the profit-making side of his own fairly complex business.

A Source of Additional Revenue

(*Continued from page* 461)

changes to make it possible for the commercial bank to encourage the purchase of high grade issues. This would result in developing a big field, the potential profits from which would be very much worth while.

And some arrangement of this sort would not be difficult to effect. It could be done by adding to the regular stock exchange commission rates, an "overriding" commission in one form or another. A fair overriding commission of this sort would probably be 50 per cent of the regular stock exchange commission on stocks selling at between $25 and $50 a share and a proportionately lower amount for those selling at higher figures. For example, the regular commission rate of the New York Stock Exchange for stocks selling at between $25 and $50 a share is $15 for each 100 shares. Therefore, the overriding commission would be $7.50, so that the purchaser would pay a total commission of $22.50 per 100 shares, of which $15 per 100 shares would go to the stock exchange house executing the order and $7.50 per 100 to the local bank originating the business.

So far as is known, none of the stock exchanges have rules prohibiting its members from executing orders received through a non-member who might make it a practice to charge such an overriding commission. Their only concern is to insure that minimum commissions be charged. They would not, of course, countenance splitting commissions between their members and outside agencies.

It seems sure that the depositor of the bank would have no objection to a reasonable "overriding" commission. Many investors say that they would be glad to pay such a commission for the privilege of conducting all of their security business through their local bank, because of the added convenience. Many of them are doing just that now.

The idea of an "overriding" commission is not an entirely new one. It has been practiced on the Pacific Coast for some time, in the case of stocks listed on the New York Stock Exchange. The distance separating New York and San Francisco is so great as to have made necessary an extensive private wire sys-

tem for the execution of orders for stocks listed on the New York Stock Exchange. As a result, the Pacific Coast broker could not operate profitably at the minimum commission rates prescribed by the New York Stock Exchange. The idea of an overriding commission was hit upon to cover this additional cost. Members of the New York Stock Exchange, however, charge nonmember brokers, dealers and banks the regular minimum New York Stock Exchange commission rates and the "overriding" commission rate has been made by them only to the private investor.

On an Equal Footing

SOME banks have already inaugurated a small "service charge" to meet the cost of this business. But anyone familiar with the banking business knows what a difficult task it has been to get all the banks, in any district, to adopt a uniform "service charge" for whatever purpose. Once such a charge is adopted, they are still at a disadvantage as their rates are higher than those of the local offices of members of the stock exchanges.

The machinery for handling an "overriding" commission charge would not be difficult to provide. It could probably best be accomplished, in fairly large or medium-sized cities, through the formation of a dealers' organization, to include, not only the banks in such cities, but also all reputable security dealers and such members of the various stock exchanges as might be located in these or neighboring cities.

An association of this sort could agree upon a uniform rate of commission, to be charged by all members of the organization. In this manner, so far as commissions are concerned, the commercial bank would be on an equal footing with the stock exchange member and the security dealer, but the business originated in each individual city or section would be transacted through the various stock exchanges at the regular prescribed commission rates. This would enable the bank to make a profit on transactions, which it has heretofore actually handled at a loss and certainly would provide it with an incentive to encourage and solicit business of that kind.

Lose Millions Annually

THERE can be no question that such an association of security dealers would have the approval of the local citizens as well as the approval of the newspapers and all the civic organizations because the community would be quick to realize that such a body could exert a powerful influence for good and would have the effect of barring from the city the financial pirate, who, of course, would have no chance of admittance to such a body. The fact that a so-called financial house in any given city was not a member of the local organization would, in all likelihood, lay it open to suspicion and distrust and would tend to raise a question in the minds of prospective investors as to the reliability of the house.

Nor do we believe that it would be a difficult task to induce the banks to subscribe to a movement of this sort. In cities and towns where there are no members of the various stock exchanges, the majority of all financial transactions of the citizens are handled through the local bank and this has included such purchases and sales of listed securities as their depositors and clients may have made. These latter transactions, as has been before stated, have been handled in many cases by the banks purely as a matter of service to the depositor and, in some instances, at an actual loss to the bank.

The stock exchanges of America would be well advised to give serious consideration to the idea of making it possible for the banks to encourage the purchase of high grade listed stocks by their depositors. The result would be to extend the market for reputable securities—into a field that up to this time has been largely left to crooks, with the natural result that American investors annually lose millions of dollars.

New Bank Will Reflect the Genius of One Man

(Continued from page 480)

quite fantastic. The prime backers of this idea were the Germans and they would be bitterly disappointed if the bank were prohibited from making large loans to finance German exports. Some of the delegates had the notion that the new bank would develop Russia and China. These notions deserve to fall to an early death. The bank is at best looked upon by private bankers as a dangerous competitor. If it undertook all these things, its competitive aspect would be maddening to private financial circles. The opposition is so great that we need look for little significant development along such lines. The bank will be confined primarily if not exclusively to a role as world central bank for the national central banks. This is a large rôle and offers ample justification for the creation of the new bank. It is better that the bank should not over-extend its function if it wishes to play a permanent part in the world credit structure.

Trade Follows the Telephone

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neous telephone and telegraph transmission, and it is highly probable that a large portion of the submarine cables that are laid in the future will be designed for such simultaneous use. Such cables, when supplemented by the flexibility of inter-connection that now exists between land lines, submarine cables and radio, should, and must necessarily, lead within a very few years to a very complete linking up of the Latin American countries, not only telegraphically, but telephonically, with the United States and among themselves.

From a purely commercial standpoint, the international telegraph service, whether by submarine cable or by radio, will perhaps always continue to play the more important rôle, but it is difficult to overestimate the value of the international telephone from the standpoint of friendly and wholesome understandings between nations, as has been said before. Foreign observers have frequently spoken of the perfection of telephone service in the United States as one of the main contributing factors to political and social unity in this country. Differences in language may introduce some difficulties in the way of the international telephone, but its potency should still be exceedingly great in brushing aside and smoothing out those differences in point of view from which international misunderstandings grow.

Huge Sums Involved

THE preceding outline has emphasized mainly the development of international communications. However, as has been indicated before, the interior telephone service of the Latin American countries dwarfs, and, from the standpoint of the investment required, will continue to dwarf all other communications services.

At the present time the International Company is directly operating about 385,000 telephones out of a total of from 700,000 to 750,000 in Latin America, and it has established friendly relations with companies operating a large part of the remaining telephones, with the expectation that traffic and technical agreements will be made with such companies whereby they may be linked with the general radio, submarine cable and land line telephone system of the International Company. If these plans are completed, it is expected that at a relatively early date the great majority of Latin American countries will be linked with each other, and with the United States, Canada and Europe by an efficient telephone service.

These internal telephone developments have required and will continue to require investments of impressive magnitude. The Latin American telephone systems now directly operated by the International Company already involved investments approaching $150,000,000, and the natural growth of the service will, at a moderate estimate, require further investments of from $10,000,000 to $25,000,000 each year.

With Ready Enthusiasm

IN connection with these investments, it is of interest to note that the International Company has repeatedly announced that its policy is to work consistently toward the development of a national interest in each local telephone company. Special efforts are made to interest local capital, and systematic training courses are established in each country for the purpose of developing and training technical and administrative officers, who are natives of the countries in which the several operations are carried on. This policy is dictated by an enlightened self-interest, which recognizes that only by and through such cooperation with the nationals of each country will it be possible to develop to the fullest degree the advantages that may come from the union of national enteprise with an advanced and experienced international technique.

No one who has traveled extensively in Latin American countries can fail to be impressed by the fact that, while socially, and in certain traditions and habits, the Latin American nations will perhaps always be more akin to Latin Europe than to the United States, these same nations, as time goes on, will, nevertheless, grow economically and industrially more and more akin to the United States. Post-war developments have brought about in Latin America, even more than in the rest of the world, a new spirit of economic ambition and a new realization of economic potentialities. The Latin American may look to Europe for inspiration in art and literature, he may be properly jealous of his national individuality and quick to resent any touch of political patronage from without; but he adopts North-American automobiles, office appliances, and home conveniences, and the new North-American architecture with a ready enthusiasm; and he is equally ready to adopt and profit from American industrial technique. It is in this important identity of interests and of point of view, supplemented by a growing development of communications services and a growing activity of commerce, that we may confidently rest our expectations for a continuing improvement in our relations with our Latin American neighbors.

As Bankers See Chain Banking

(*Continued from page* 485)

"It might be of interest to you to get our reaction on group banking now that we have had more than two years' experience in this development. We are not looking for nation-wide branch or group banking, as we do not feel that it would be economically sound due to the fact that it would eventually concentrate in New York the control of all banking operations of the country. We do favor and are looking forward to the extension of group or branch banking within each Federal Reserve district. We feel that that would bring the group within a logical trading territory.

"It has been our policy to endeavor to establish units in the various principal points within our own trading territory, and in doing this we have not made it our policy to become interested in banks that we do not feel were located in desirable points. This has enabled us to get the proper diversification which was never possible in the unit bank. It has enabled the small bank to receive better supervision. Due to centralization of reserves, it enables the group to take care of the credit requirements of the territory a good deal better than the local bank was able to do, as at various points credit requirements are excessive for the local bank at certain periods of the year, while at other points in the group surplus funds are available. However, in taking care of credit requirements we have not lost sight of the necessity for proper secondary reserves."

In the State of Washington the law prohibits state banks purchasing stock in another bank but there are six chains held by holding companies. The officers of one of these bank holding companies about a year ago were considering disposing of their subsidiary banks because of a protracted period of depression in the agricultural districts where most of those banks were located, but conditions have since improved. The officers still think the idea of centralized control is sound and they are now planning not only to keep, but to extend their system, according to latest reports.

Savings Banks

(Continued from page 492)

000, South Dakota with over $2,500,000, New Mexico with almost $2,000,000, and Wyoming with over $1,500,000. This situation indicates the continuance of favorable factors in the live stock industry. Last year South Dakota showed a gain of $2 per inhabitant. That increase is reinforced this year by a gain of $4. Nebraska took a recession of $17 per inhabitant, followed by North Dakota with a recession of $15, and Kansas of $8, while Colorado suffered a slight loss.

In depositors, all of the states in this area suffered a heavy loss. Nebraska sustained the greatest decrease, that of almost 102,000, followed by Kansas with a loss of 62,000, North Dakota 29,000, New Mexico 23,000, Colorado almost 15,000, South Dakota almost 14,000, Oklahoma almost 8,000, Montana over 6,000 and Wyoming almost 2,000. Despite the preponderance in the number of states which did not sustain loss in deposits, the total group showed a loss of $33,000,000, with a total loss in depositors in excess of 261,000. Last year two states in this area suffered considerable loss in deposits. The same states, with two others, show losses this year.

In the face of the overwhelming decrease affecting the majority of the states in the United States, in the midst of good manufacturing conditions and fair agricultural conditions, it is impossible to evaluate the factors which make for loss in this section. It is highly probable that two factors were at work, one of which was the tremendous competition with the savings business which developed during the year; and the other factor may be a continuance of some unsatisfactory conditions which have been found in this area for a number of years.

Pacific States Gain

IN the Pacific states the recession which obtained in almost every other part of the United States was routed, and this group, together with New England, shows a gain for the year. Washington and Oregon only suffered loss, Washington to the amount of $1 per inhabitant and Oregon only negligibly. California added $73,000,000 to her former huge total, with a gain of $16 per inhabitant for the year. Idaho scraped through on a dollar increase, Utah with $5, Arizona with $8, and Nevada, one of the wealthiest states of the Union, increased her savings in excess of $2,000,000, which meant an increased amount per inhabitant of $25. Despite the losses in this area, the net gain was in excess of $79,000,000, with a gain per inhabitant of $9, being $1 below the per inhabitant gain of the New England states, in which only one state showed a decrease in savings.

In depositors, Oregon suffered a serious loss in almost one-third of her depositors. The loss in Washington was less than 1,000. Although Idaho slightly increased her deposits, her depositors were about 500 less than last year. Nevada increased her depositors by almost 1,000, Arizona by more than 5,500, Utah by almost 6,000, and California with the amazing total of almost 365,000, or 1,000 for each day in the year. For the year the Pacific states, despite the notable loss in Oregon, had a gain in depositors of almost 278,000.

The year closed, therefore, with total savings deposits in Continental United States of $28,217,656,000, which is a decrease during the year of $195,305,000. The total number of depositors was 50,788,542, which is a decrease of 410,722.

Hawaii reported savings of $43,834,000, which is a gain of almost $12,000,000 over last year. There is a notable gain too in savings depositors, which now number 151,766, a gain of 21,145 over the number reported a year ago. A study of the deposits of a year ago indicates that these deposits were made by races as follows: Japanese, 19.7 per cent, Chinese, 16.4 per cent, Portuguese, 11.2 per cent, Hawaiian, 7.5 per cent, Filipino, 6.7 per cent and all others, 38.6 per cent.

Individual Deposits

IN fifteen states and the District of Columbia, individual deposits increased, in all the rest of the states they

decreased. In twenty states and the District of Columbia, savings showed a gain, while in twenty-eight states there was a recession. In every state in which individual deposits increased, savings increased, except in the case of Maryland. In several states savings increased even though individual deposits suffered a loss.

Time certificates of deposit for several years have shown a tendency to decrease in relation to total savings deposits. This year there has been a slight increase which manifested itself in the Middle Atlantic States, the Southern States and the East Central States, where yet to a considerable degree savings, which in other districts would be deposited on pass books, are carried on certificates of deposit.

Draining Away

THERE is scarcely any reason to doubt that one of the important factors in draining away savings deposits and decreasing the number of depositors has been the lure of profits to be made in stocks. For a number of years the people of this country have been regaled almost daily with stories of profits which have been made in stocks in all types of companies. Those who feared the uncertainties of the stock market in many cases yielded to the name "investment trust," which connotes a wisely managed company of widely diversified holdings both as to type of industry and geographical location, but which in the United States has been used to cover all sorts of companies from blind pools to investment trusts of the highest possible integrity and ability in management.

During the last few years there has been a specious philosophy preached, that panics such as formerly occurred were no longer possible. This philosophy is in keeping with that sociology which proclaimed up to the day the guns of the great World War were unlimbered that the nations of the world were bound together in such close ties of various kinds that war was impossible.

A casual examination of brokers' loans indicates that the amount loaned "for others" as of June 26, 1929, was greater by more than $1,000,000,000 than for a similar date in the preceding year. This money outside the banking channels helps to explain the loss in individual deposits during the year.

The Lure of Profits

THE loss in both individual deposits and savings deposits during this one year after a rapid rise for fifteen years should not cause undue alarm. The savings deposits per inhabitant for the year are $235, which is but $2 less than the preceding year and represents a loss of but 8/10 of one per cent. The volume of savings stands at 89.5 per cent over the volume in 1919, and 164 per cent gain over the volume in 1914.

If it has been the lure of profits in stocks which caused the recession in savings deposits, then one factor in the future savings business will be the success attendant upon this year's venture of savings depositors in stocks. If it shall have proved happy, further defections may be expected and more and more a savings bank or savings department will be regarded simply as a reservoir for the accumulation of funds. If the experiment does not prove generally successful, then another year will doubtless witness an increase in savings deposits as well as in savings depositors.

Since the United States Bureau of the Census issued no estimate of population as of July, 1929, *in view of the approaching census enumeration in* 1930, *this report is based upon the population figures supplied for July,* 1928.

Condition of All Banks

LOANS and investments of all banks in the United States increased during the year ending June 29, 1929, by $1,209,000,000, or 2 per cent, to the level of $58,474,000,000, the Federal Reserve Board reports. The increase for member banks was $650,000,000 and for nonmember banks was $559,000,000. Total deposits, exclusive of inter-bank deposits, were $53,852,000,000 as compared with $53,398,000,000 a year previous.

Latin America

(*Continued from page* 489)

of a condition where optimism has, if anything, proven greater than the immediate results seem to justify. Overexpansion, if properly handled, is not as grievous a fault as dilatory, short-sightedness nor is it as serious a condition as fundamental economic weakness.

A Man-Made Figure

OUR investors will think twice therefore, before "selling short" a continent of such potential possibilities as Latin America. In our present mood we are not inclined to sell anything short and Latin America has every possibility of all the tremendous development that has marked our own stupendous growth. The psychological effect, moreover, of withholding American financial support from these growing countries would be unfortunate. Those who are acquainted with much of the propaganda that has been used to disparage the United States and its products in many Latin American countries in the past are fully aware that most of it has been made in Europe.

"The Colossus of the North" is a man-made figure of distinctly European design. Our direct participation in the development of so many Latin American communities in recent years, coupled with our absolute political aloofness, has done much to dissipate any fears that our economic might would inevitably carry with it the threat of political domination. The return of a dependence upon Europe for financial assistance, even though the money were provided primarily by American investors, would place our commercial rivals in a favored position from which the old tactics could be engaged in with unfortunate results.

The American investor has not deserted the Latin American field. The present hiatus is but temporary and in all probability some means will be devised, sooner or later to meet the legitimate financial needs of a growing and progressive people from the surplus accumulations of our own savings.

National Trust Conference

THE eleventh annual mid-winter trust conference, under the auspices of the Trust Company Division, American Bankers Association, will be held in New York City, February 18, 19 and 20 at the Hotel Commodore. The conference is national in scope, more than 400 trust companies and banks from thirty-three states being represented at the meeting last year.

John C. Mechem, vice-president First Union Trust and Savings Bank of Chicago, president of the Division, has announced that the conference will discuss the most approved methods of settling estates and administering trusts and will deal with current problems of fiduciary service.

The nineteenth annual banquet of the trust companies of the United States will be held the evening of February 20 at the Hotel Commodore in conjunction with the conference. Arthur W. Loasby, chairman of the board, Equitable Trust Company, New York City, will serve as chairman of the banquet committee.

Bankers' Bonds

THE bankers' limited forgery bond has been made a continuous instead of an annual contract through the efforts of the American Bankers Association Insurance Committee during the past year, according to a report issued by its chairman, W. F. Keyser, secretary of the Missouri Bankers Association. This important change was brought about through a series of conferences between the committee and the surety association's committee.

Another change resulting from the conferences was the extension of the "discovery clause" in both the limited form and the bankers' blanket forgery and alteration bond from one year after cashing, paying or extending credit on the forged instrument to twelve months after cancellation or termination of the bond, the report states. In addition, the blanket form was made concurrent with other bonds covering the same loss, whereas it formerly furnished only excess insurance.

Condition of Business

(*Continued from page 500*)

etc., had practically an identical rate of gain, the combined net operating income increasing from $621,216,000 to $730,740,000.

A study of similar figures for the third quarter only shows that the 205 miscellaneous industrial and trading companies had combined profits of $376,286,000 this year as compared with $321,066,000 in 1928, giving an increase of $55,220,000 or 17 per cent. This is slightly lower than the rate of the industrial group for the nine months, but is nevertheless an excellent showing when considered in relation with 1928, a year that surpassed all previous records in earnings. A favorable forecast may, therefore, be made of the probable showing of the annual reports to be presented next year, which should make pleasant reading to that part of the public that still holds quality stocks.

Concurrent with the decline in the stock markets there was a genuine revival of interest in the markets for seasoned bonds, and the easier money rates now prevailing should encourage the flotation of fixed term issues, many of which have been held back until the financial markets turned back toward normal and quieted down. In the past month, however, the number of new offerings was unusually small, the issues of $5,000,000 or over being shown in the table on page 500.

The Outlook for Money

STOCK market vibrations late in October brought the first real assurances of easier money conditions. The violent reactions in stock prices were followed by the record-breaking reduction of $1,000,000,000 in brokers loans and the immediate downward adjustment of rediscount rates by the Federal Reserve Bank of New York.

Notwithstanding the severity of the shock in the security market the current bank reviews almost unanimously emphasized the soundness of fundamental business conditions. There is also evident an optimistic atmosphere and a disposition to look to the future with confidence. This feeling is clearly discernible in the report of the First National Bank of Boston, which said:

"The crash in the stock market has sobered sentiment, but business fundamentals remain sound. Credit resources are ample, with interest rates on the decline. The Federal Reserve system as well as member banks are in a strong position. Corporations have large cash holdings. Industrial earnings for the first nine months of this year were the highest of any previous corresponding period. The purchasing power of the general public continues on the high level, although the recent break in the stock market may lessen the demand for luxuries. Furthermore, inventories, with the exception of a few lines are on a conservative basis, and the trend of commodity prices has been gradually down-

ward. In spite of unusual speculation in securities, our industries have been hard at work turning out more goods than ever before; the productivity of labor has shown a steady increase. Our railroads are operating at the peak of efficiency, with no evidence of congestion or delay."

Equally satisfactory is the view of conditions taken by the Central Trust Company of Illinois, Chicago, whose bulletin stated:

"The end of the third quarterly period of 1929 found business and financial activities at a level heretofore unknown at this season of the year. As in 1928, the expected and usual summer let-down did not appear, and business carried forward through the third quarter almost at second quarter volume.

"With three-fourths of the calendar year behind us, we may look to the last weeks of the year with confidence, even though industrial output for November and December should record a considerable decline, which is wholly possible."

The First National Bank in St. Louis makes the following comment:

"So far as one can judge at this moment, the outlook for business during the fall is encouraging. There are some indications that suggest that the rate of expansion which business witnessed during the past year may be somewhat less during the early months of next year. Such a development would not be unusual. Every business man knows, from past experience, that an occasional slowing down in business activity is inevitable at times. However, aside from the fact that our credit situation is unusually expanded, business fundamentals are sound. Recent developments indicate that the basic factors underlying our credit situation are beginning to improve. Further large expansion of credit resources for speculative purposes does not seem likely for some time to come as a result of a changed attitude toward such commitments. While this may produce pessimism in some quarters, fundamentally it is a constructive factor of first importance for the continuation of sound business."

Describing the stock market developments at the end of the month as the most drastic contraction of values in the financial history of the country, the Guaranty Trust Company of New York in its monthly survey nevertheless goes on to say:

"But, violent as it was, the recession in stock prices was not so directly related to changes in the general business outlook as might be supposed. As a matter of fact, the security markets for some time have moved almost independently of trade developments. Over a long period, of course, prices of stocks and bonds are necessarily related to the prospects of the concerns they represent; and, in so far as other factors have carried values out of proportion to their intrinsic worth, the recent movement must be regarded as a readjustment toward normal levels. But to suppose that the selling wave of the last few weeks was due to adverse developments of corresponding importance in the general business situation would be a fundamental error."

New Books

INVESTMENT TRUST ORGANIZATION AND MANAGEMENT. By Leland Rex Robinson. Published by the Ronald Press Company, New York. 586 pages.

The book is a sequel to, rather than a revision of, the first edition which appeared in 1926 and which had much to do with the impetus and direction of investment trust companies in the United States. The earlier volume of necessity dealt chiefly with the development of investment trusts in foreign countries, especially Great Britain. The investment trust movement has now become established in this country and the new volume brings up to date the earlier volume in that it deals largely with current conditions and problems in the United States.

Although this new volume endeavors to present operating theories and practices, with the necessary historical background, to serve as a practical guide for those who may be interested in the organization and management of investment trusts, it is also intended as a guide to investors in the securities of American organizations partially or entirely based upon the investment trust idea.

The book is intended to facilitate a critical interpretation and use of the great mass of current data on investment trust earnings and capitalization which is now being made steadily available. The chapters on capital structure, forms of securities issued, invsetment policies, accounting practices, earnings, reserves, and dividends are expected to place the reader on his guard against the current tendency to compare too closely figures among companies having no real basis of comparability, or over periods of time much too short to afford any real test of performance.

The author defines the investment trust as "an agency by which the combined funds of different participants are placed in securities showing a distribution of risk such as to introduce the 'law of average' in the protection of principal. Moreover, in aiming solely at the safe and reasonably employment of its subscribed investment funds, the investment trust definitely avoids any and all of those responsibilities of control, management, finance, direction or special interest which are sometimes tied in with investment."

The book contends that only organizations substantially meeting this definition may be technically considered as investment trusts.

THE RECOVERY OF GERMANY. By James W. Angell, Associate Professor of Economics, Columbia University. Published by Yale University Press, New Haven, Conn. 409 pages. Price, $4.00.

The results of first-hand observations of the economic recovery of Germany since the war are presented in the book. Problems which must eventually be solved in terms of national productivity

and international trade are examined. The book is based upon three principal types of information; conversations with people in public and private life, personal observations made in the course of visits to factories and mines, and official and other compilations of material bearing on industrial and financial conditions since the war.

A PRACTICAL EXAMINATION OF THE BILLS OF EXCHANGE ACTS (GREAT BRITAIN). By Cecil H. H. Fennell, of the staff of the Bank of Ireland. Published by Isaac Pitman and Sons, New York. 145 pages. Price, $2.25.

The book is a critical examination of the laws relating to bills of exchange, checks and promissory notes, as contained in the British exchange acts of 1882, 1906, 1917, and other acts as are necessarily involved.

NEW LEVELS IN THE STOCK MARKET. By Amos Dice, Ph.D. Professor of Business Organization, Ohio State University. Published by McGraw-Hill Book Company, Inc., New York. 260 pages. Price, $2.50.

The dawn of a new day in the stock market is heralded together with the reconstruction that has taken place in the economic fundamentals of the present time. The purpose of the book is to describe the revolution that has come about and to state the significance of recent developments of the stock market and for business.

THE LABOR BANKING MOVEMENT IN THE UNITED STATES. Prepared and published by the Industrial Relations Section, Department of Economics and Social Institutions, Princeton University. 370 pages.

The movement is traced from the opening of the first labor bank for business in May, 1920, through the peak of thirty-six institutions with total resources of more than $125,000,000 six years later down to July, 1929, when twenty-two institutions with more than $100,000,000 of resources remained. By an intensive analysis of past banks and present, the results of the economic experiment embodied in the labor bank movement are measured and evaluated.

HIGH FINANCE IN THE SIXTIES. Edited by Frederick C. Hicks, Professor of Law and Law Librarian, Yale School of Law. Published by Yale University Press, New Haven, Conn. 406 pages. Price $5.00.

Chapters from the early history of the Erie Railway are related by Charles Francis Adams, Jr., Henry Adams, Albert Stickney, George Ticknor Curtis and Jeremiah S. Black. Corporation methods of half a century ago and the spectacular early financing of the Erie Railway are brought into sharp relief in this collection of contemporaneous writings.

New Books

THE THEORY AND HISTORY OF BANKING. By Charles F. Dunbar. Fifth edition, revised and enlarged by Oliver M. W. Sprague, Professor of Banking and Finance, Harvard University. Published by G. P. Putnam's Sons, New York. 314 pages. Price $2.

This standard work has been brought up to date by changes and additions to cover recent banking experience and legislation, particularly in respect to central banks and the Federal Reserve System. The theory of the original work has been retained, which was to provide a means for the study of the subject which would be neither too summary nor too diffuse for ordinary purposes.

THE AMAZING BENJAMIN FRANKLIN. Compiled and edited by J. Henry Smythe, Jr. Published by Frederick A. Stokes and Company, New York. 296 pages. Price $3.00.

Capital and Exchange

ONE of the most recent contentions of American economists which is of direct concern to bankers is that capital movements are mainly responsible for exchange fluctuations. This theory assigns to commodity trade the position of lesser importance among the factors influencing the exchanges.

For years the problem of fluctuating foreign exchanges has engaged attention. Some sort of stability had to be found in the early post-war years or the trade of the world would have become demoralized. The return of most of the nations to the gold standard overcame the extreme fluctuations which had been common. Study of causes has enabled further progress. The annual survey of the United States of the balance of payments brings out the relationship between capital movement and exchange levels.

The idea is engaging attention in Great Britain, where the Midland Bank Limited, London, assigning over-lending as the primary cause for the weakness of sterling exchange, says:

"The conclusion is emphasized by the fact that the weakness of sterling this year, despite an improved balance of current payments, has been far more pronounced and persistent than in 1926, when the predominant forces were those of commodity trade, coupled with what are

euphemistically called 'sentimental' influences. It seems, indeed, that, apart from earthquakes and other colossal upheavals such as only Nature and War can engender, conditions in the world's money markets are for the most part important factors in the governance of exchange rates. This being so, the requirement of the immediate future is to evolve a process of correction which, while working on money market disparities, shall avoid the all too frequent damage which may incidentally be done to industry and trade."

Emigrants of American Capital

(*Continued from page* 496)

privately taken issues to foreign competitors of American companies in other lines are no less striking. They include advances to German iron and steel companies like the Thyssen interests; to Luxembourg steel interests like the "Arbed" company; to manufacturers of electrical machinery and equipment like the Siemens and Halske interests and the Allgemeine Elektricitaets Gesselschaft in Germany; to motion picture concerns such as Ufa in Germany; to biscuit factories, metal and hardware factories and so on, not to mention the long list of private loans to industrial and similar concerns of which there is nothing like a complete record but whose total is known to be very large.

No Menace

Of course all these loans to concerns in direct competition with American industry are presumably purely financial transactions. The borrowers have merely come to the American money market for their financing just as they might have gone to London or Paris or elsewhere. There is also no question but that in addition to the fact that they have secured profitable use of American funds—and American investors have as many rights as American industrialists—they have aided in that rehabilitation of Europe and other countries after the World War which has been a prerequisite for prosperity in the United States as well as other parts of the world. But the factor of "competitive menace" is present and is as important in this line as any other menace of the sort.

The fact of the matter is that there is no menace in any of these movements of capital—in the export of our money, skill, brains, machinery or what not. They all mean international development, adjustment and stabilization. It might as well be objected that the export of labor saving machinery—our woodworking machinery, shoe machinery, cigarette making machinery, all the thousand and one advanced appliances characteristic of American industry—is an aid to competition with American industry, or that the export of improved agricultural machinery is an aid to the competitors of the American farmer.

Such is the case in a strict and narrow sense but aside from the fact that

the export of such modern machinery and appliances mean as much as and indeed more than the export of articles less advanced in manufacture the world long since learned that the advancement of industry of all sorts in all countries broadens the market for goods of all sorts. In short it means an increase in all lines of trade and especially in those lines of manufactured goods which represent the most skill, the highest priced labor and the greatest return to both labor and capital as well as the ultimate consumption of more agricultural products. The continued export of American capital in industrial enterprises abroad has a very important part in the development and maintenance of that world prosperity upon which the continued prosperity of all nations depends.

Technique of Character Loans

(Continued from page 504)

very little time on collections. Delinquents are negligible."

This is the goal you have in mind—an ultimate volume that pays its way and that has been so carefully gathered as to require very little time or expense in collecting. Here are the rules:

First—A double-check investigation.
Second—"No" when there is the least doubt.
Third—A careful re-working with added collateral or additional endorsers.
Fourth—Educate your customers in sound financial engineering. This requires the combining of obligations and limiting of loans.
Fifth—Allow no doubling. An endorser cannot borrow and a borrower cannot endorse.
Sixth—When collecting is necessary it is constant hammering that brings results.

Follow these rules and the bank examiner will congratulate you. Forget them and your "Dubitative Complexes" may come on again or even develop into something worse.

In Every Nook and Corner

NOW that your small loan business is launching forth with full steam ahead, you are assuming an obligation regarding better economic conditions that is both large and laudable. Merchants for a score of years, in an attempt to finance their products, have been operating little personal loan departments in every nook and corner of the land. The drawback has been that, being overly ambitious and not knowing the limits of safe credit, they have recklessly oversold or overloaned their customers. They have not had the wisdom of bankers and have not applied the above six rules.

Entering this field the function of your bank is to stabilize conditions. Gradually that portion of the public which mortgages incomes several years in advance may be reduced to a minimum. Most merchants, who have not failed by their own lack of credit sense during the past few years, are now welcoming the introduction of the small loan department in our banks, where it

should rightfully have been all the time. Your part in the spectacle is thus beginning at a very opportune time for your bank, your customers and your country.

A. B. A. Cheques

(Continued from page 506)

at the demand of the independent member banks in the United States for a uniform travel cheque sponsored by the banks themselves which would be acceptable everywhere. At the time an agreement was made that the Bankers Trust Company of New York would act as agent for the members in issuing these cheques and under our joint efforts, and with the cooperation of thousands of banks both here and abroad, A. B. A. cheques have come into general acceptance the world over."

Although the A. B. A. cheque holds the unique record of never having been successfully counterfeited, the new small size form will embody all modern safeguards and improvements in design. Color has also been introduced into the design. No change, however, has been made in the relative position on the cheque of the signature, the countersignature, the name of the issuing bank and the certification of the Bankers Trust Company.

Intermingling Colors

THE general design of the new cheque consists of steel engraved lathe borders, inclosing the text matter. The title is steel engraved in shaded old English, while in the upper left and right corners are lathe pieces containing the denomination in figures. Within the steel engraved lathe borders appears multicolor tinting, with an intermingling of several colors in various geometric designs, framing a central protective tint pattern indicating the denomination of the cheque. In each case the color values vary to such an extent that it is considered practically impossible to obtain a satisfactory camera exposure for the purpose of counterfeiting.

With the issuance of the new cheques, a $200 denomination will be made available for the first time. Heretofore cheques have been issued in denominations of $10, $20, $50 and $100, but the addition of the $200 cheque was deemed advisable because of the lower purchasing power of the dollar since the introduction of the cheques in 1909. It was also desired to reduce the spread between travel cheques and letters of credit, which are seldom issued for less than $1,000.

Italian Corporate Issues

DURING the first six months of 1929 a total of 3,859,940,010 lire of new capital was issued in Italy, the Department of Commerce reports. The lira is equivalent to $0.526. In 1928 the total capital issues for the six months period were 2,409,542,102 lire and in 1927 they were 1,582,519,814 lire.

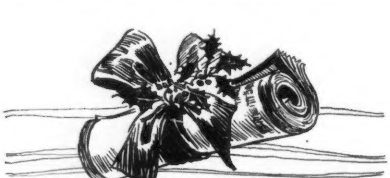
INDEX TO ADVERTISERS

WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

"IT is next to impossible for any man to read all of the magazines now published," says the Washington (State) Bankers' Association ***Bulletin*** of October, "or even glance at the literature on the subject of banking that is being turned out by the printing presses these days. He must use discretion and selection if he is going to choose wisely and read thoroughly. Our old standby for this recommendation, of course, is the AMERICAN BANKERS ASSOCIATION JOURNAL. * * *

"It has occurred to us, since the Christmas season is approaching, that bankers will be looking around for some suitable gifts for directors and stockholders as well as remembrances to a number of valued customers. One very acceptable gift which we think will bear fruit would be for the bankers to present individual subscriptions for one year's duration to such magazines as the AMERICAN BANKERS ASSOCIATION JOURNAL, at $3.00 per annum, and present these to the thoughtful members of its Board, to departmental heads, and stockholders who



are sufficiently literary to appreciate such a gift. A half dozen additional copies of the JOURNAL, thoroughly read and digested in each community throughout the country, would add tremendously to the information on banking topics and would pave the way for many of the reforms that the banker finds necessary to inaugurate in the conduct of his business during each year."

Believe It or Not

UNDER the above caption a newspaper of Atlantic City prints the following item which may or may not be humor:

"A miracle of science which will be of great value to the banking fraternity is the grafting of an ordinary oyster into the eyesocket of a human being. This experiment brings to a successful conclusion the efforts of the American Bankers' Association to stanardize vice-presidents. From now on, all vice-presidents will be equipped with the oyster eye to use while looking at customers."

This variation of the "banker's glass eye" story is timely, for it reminds us of the glassy eye with which the Federal Reserve Board long looked upon the stock market boom.

As it was Thursday, October 24, was a history-making day, but what might it have been if the Federal Reserve Board had not been sitting on the lid for so long a time?

In appraising all the factors leading to the crisis of October 24, the efforts which the Federal reserve authorities made from time to time should not be overlooked.

Thanksgiving

WE wonder if Thanksgiving has lost its original significance?

Surely, with many persons it is a day filled with the highest and the best traditions of the spirit in which the feast was established, but with many others, if the evidence of one's eyes is creditable, Thanksgiving is just another day off, shorn of all those finer feelings which brought it into existence.

Yet however much surface indications of a true spirit of Thanksgiving may be lacking in the masses, we nevertheless are sure that the good that flows from the institution is incalculable.

Over 120,000,000 people admonished by proclamation and by example to give thanks to the Omnipotent, and turning aside from their usual tasks because the Chief Executive of the nation bids them to do so as a meet and proper obeisance to a higher authority, must of necessity give to many a careless person food for useful reflection.

Here is mass psychology on a mammoth scale, working for the betterment of the individual, and with equal certainty working toward the improvement of the nation as a whole, and out of which banks must of necessity derive positive benefit.

Banking can, if it will, look back over the year that is closing and find abundant reason to give thanks for its prosperity and its advancement during the year of 1929.

The Bank's Farms

SOME time ago there came to our attention the statement of a bank which included this item among its assets:

"Two farms . . . . .02"

Whatever may be the story back of those farms and the manner in which they were carried in the statement is perhaps of no consequence now save as an illustration of the zero point of farm land on the books of a bank.

Elsewhere in this Journal will be found an article by Howard Whipple of San Francisco which tells what two California banks are doing with the farms and farm lands that came into their possession, and this article is suggestive of a movement which may enable banks to more profitably handle farm lands that fall into their hands.

In effect, the banks treat these farm properties the way a receiver would manage a going business that had been turned over to him. Instead of shutting down operations, and letting things lie dormant during his receivership, he would keep it going if possible and try to make the income exceed the outgo. The skillful receiver may have and often has, saved a going business and eventually exhibited a surprising condition of prosperity; and farms which banks have been obliged to take may likewise be increased in value.

There are notable examples of large-scale farming with superintendents, overseers and foremen cooperating with the tenant farmers and with other employees, so what to do with the farms that come into the bank seems to be in a fair way to be solved. Then, why not do with them just what

Back to Work

"LOTS of people are going to have to go back where they belong—to work."

Oddly enough, this comment was made in Wall Street just after the first of the series of breaks in the stock market late in October. It means that those whose business is to deal in securities recognized the disruption of values that comes from a mass movement to get rich quick.

It also means that the dissipation of the froth of prosperity, which is the easy-come-easy-go takings of unearned increment, compels a return to the labor of hand or brain which alone assures stability.

In all the discussion of the probable effect of the stock market smash upon business this element seems to have been overlooked. Many people who have been "playing the market" will be back on the job and working hard. Business will gather the fruits of their industry.

A Coming Picture

THE cover illustration for next month's issue is unusual, though appropriate to the Christmas season and in keeping also with the requirements of a banking magazine. It brings together elements in our national life which, though not commonly associated together, nevertheless act and react one upon the other to the improvement and the solidarity of banking as a business. An unusual illustration, as we have stated, we shall send it out across the land with no misgivings, but with full confidence that it will strike a responsive chord in the heart of everyone who sees it.

bankers are doing with banks? Combine them and operate them under one management.

A bank with small acreage on its hands is, of course, not warranted in setting up an overhead which the land cannot by any stretch of the imagination carry, but all the bank farms in a district, or a region, if combined under one management, may be amply sufficient to make bold and scientific farming on a large scale well worth while and even highly profitable.

The farms, now scattered among many banks, may one day feel the influence of the mass movement, the merger movement, and pass out of their existence as irritations to the banks owning them, and become better assets with better chances of eventually being profitably sold.

This method of treating the bank's angle of the farm problem is alluring and we commend to the attention of our readers Mr. Whipple's article.